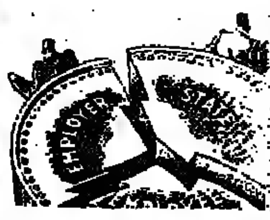
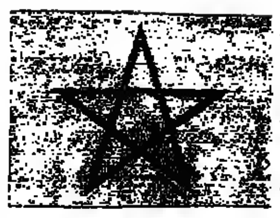


Cradle to grave
Funding welfare around the world
Page 14

Green shoots
Signs of revival in France's economy
Page 2



Today's surveys
Morocco Section III
Dubai Section IV

FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY NOVEMBER 3 1993 D8523A

Leading indicators show US economy gaining strength

New government economic data showed the US economy to be gaining strength, lending weight to predictions of solid growth in the next two quarters. The Commerce Department's index of leading economic indicators showed a rise of 0.5 per cent in September after a 0.9 per cent gain in August. At the same time, the Commerce Department said sales of new homes rose by 21 per cent in September to their highest level in seven years. Page 16

Fifth TV network planned: Media companies Time Warner and Tribune announced they were joining forces to launch a fifth US prime time television network – in direct competition with Paramount Communications and Chris-Craft Industries, which also unveiled plans for a network last week. Page 17

Rabin faces setback: Israelis voted across the country for new municipal councils amid signs that the Labour party of prime minister Yitzhak Rabin was heading for an electoral setback in Jerusalem but some successes elsewhere, in the first test of public opinion since the signing of the Israeli-Palestinian peace agreement. Page 7; Palestinians suspend talks, Page 7

Hongkong Telecom plans to cash in on its existing telecommunications system by setting up a cable TV and video-on-demand service. The move comes two days after the launch of Wharf Holding's HK$5bn (US$647m) cable television network for the colony. Page 21

Pravda returns to the streets

"We're back", said the headline over the front-page editorial in yesterday's Pravda (left). After a month's ban, the Soviet Union's most famous paper, founded on May 5, 1912, by Lenin, is out again. But the paper that was once required reading for 20m Soviet communists must now compete in a raucous marketplace of publications in which its pre-ban circulation of just under 500,000 will be hard to maintain. Page 3; Yeltsin castigates ministers on reform, Page 3; Rouble zone faces more breakaway pressure, Page 3

Tax rises signalled: UK prime minister John Major gave the clearest signal yet that his government is planning further tax increases in the November 30 Budget. Page 10

BCCI compensation move: Liquidators to the collapsed Bank of Credit and Commerce International want to negotiate a higher contribution than the originally negotiated $1.7bn for creditors from the government of Abu Dhabi, the majority shareholder in the bank. Page 16

MEPC, UK's second largest property company, is doubling its exposure to the US property market by paying £115m ($170m) for American Property Trust, a unit trust that owns two shopping malls in the US. Page 17

Serb-Croatian talks: Officials from Croatia and the Serb-held Krajina enclave held secret "Palestinian-style" talks in Norway aimed at agreeing a truce, diplomats said. Page 3

KMart, second-biggest US retailer, is selling most of its lossmaking Pace Membership Warehouse clubs to rival retailer Wal-Mart Stores. Page 20

Renault and Volvo said they would launch a concerted campaign to defuse mounting shareholder opposition to their proposed merger after the Swedish group was forced to postpone a vote to approve the deal. Page 17; Volvo and Renault paper over the cracks, Page 18

Warning on debt: Kenyan finance minister Musalia Mudavadi warned that the country might have to reschedule its $7bn external debt because of an accumulation of $700m in arrears resulting from the suspension of foreign aid. Page 6

Proton Cars Europe, an Anglo-Malaysian joint venture through which the Proton, Malaysia's national car, will be marketed in continental Europe from the middle of next year, was formalised in Kuala Lumpur. Page 8

Ruling party 'set for win': New Zealand's ruling National party appears increasingly likely to win Saturday'a general election, aided by a surprising late run from the third-ranking Alliance, according to the last national opinion poll to be conducted before the election. Page 6

STOCK MARKET INDICES

FT-SE 100:	3164.1	(-0.3)
Yield	3.72	
FT-SE Eurotrack 100	1382.36	(+7.05)
FT-A All-Share	1582.3	(+0.0)
Nikkei	19,381.24	(-57.00)
New York: lunchtime		
Dow Jones Ind Ave	3683.39	(-9.22)
S&P Composite	467.51	(-1.59)

US LUNCHTIME RATES

Federal Funds:	3⅛%
3-mo Treas Bills: Yld	3.168%
Long Bond	101⅞
Yield	6.100%

LONDON MONEY

3-mo Interbank	5¾%	(5⅞%)
Liffe long gilt future:	Dec 113½	(Dec113⅝)

NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$15.91	(16.03)

Gold

New York Comex (Jan)	$364.5	(362.1)
London	$361.0	(362.75)

STERLING

New York lunchtime:		
$	1.478	
London:		
$	1.4825	(1.481)
DM	2.5125	(2.5075)
FFr	8.77	(8.78)
SFr	2.225	(2.2225)
Y	158.25	(160.25)
£ Index	80.9	(same)

DOLLAR

New York lunchtime:		
DM	1.7035	
FFr	5.9315	
SFr	1.5115	
Y	107.95	
London:		
DM	1.6945	(1.6935)
FFr	5.915	(5.9275)
SFr	1.5005	(1.501)
Y	107.5	(108.2)
$ Index	66.4	(66.7)

Tokyo close Y 108.17

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00
Czech Rp	CZK45	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta210
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20
Finland	FM12	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00
France	FFr9.00	Kuwait	Fils.600	Poland	Zl 32,000	Tunisia	Din1.250
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L8000
						UAE	Dh11.00

De Benedetti returns from holiday to threat of jail

Charges by Rome magistrates in political corruption case speak of 'socially dangerous' Olivetti chairman

By Haig Simonian in Milan

MR Carlo De Benedetti, one of Europe's best-known and wealthiest businessmen, faced the prospect of his first night in jail yesterday after returning to Italy to be interrogated by Rome magistrates investigating political corruption.

A visibly shaken Mr De Benedetti was driven to the capital's Regina Coeli prison after giving himself up to police in Milan. The arrest followed the issue of a warrant at the weekend by Rome magistrates against the Olivetti chairman, who has been implicated in Italy's 18-month political corruption scandal. Reports suggest that Mr De Benedetti was on holiday outside Italy at the weekend.

Mr De Benedetti's arrival at the jail, where he is likely to be kept for at least 48 hours, was accompanied by chaotic scenes. Attempts at a discreet entry were foiled by a traffic jam, which left his car and a police escort blocked in a narrow alley within sight of the rambling jail, a former convent. The vehicles were immediately engulfed by photographers jostling to catch a glimpse of the accused.

After two rounds of questioning during the day, magistrates indicated they would not decide for at least 48 hours on a legal move by Mr De Benedetti's lawyers to secure his release.

In the formal charge sheet prepared by Ms Maria Cordova, the investigating magistrate in charge of the case, Mr De Benedetti is described as "socially dangerous" and accused of corrupting public officials for the past 10 years.

Until now, Mr De Benedetti has taken the line of many other senior businessmen caught up in the corruption scandal that kickbacks were paid only after repeated demands by public sector officials and politicians, and were essential for their companies to win business from the state.

That line of defence satisfied Milan magistrates, who interrogated Mr De Benedetti in May. At that time, in a highly embarrassing admission just days after asserting the opposite to Olivetti shareholders at its annual general meeting, Mr De Benedetti disclosed to Milan magistrates investigating post office corruption that Olivetti had paid bribes.

The case is now being led by magistrates in Rome, who, contrary to the decision of their Milan colleagues, have sought Mr De Benedetti's arrest.

The Rome magistrates say new evidence has come to light, suggesting that Mr De Benedetti has held back information and that he is not the innocent victim of conniving public sector officials, as he claimed.

According to widely leaked comments in the press, the Rome judges argue Mr De Beoedetti himself sought to corrupt officials. They claim to have unearthed new evidence that the kickbacks stretch back much further than Mr De Benedetti has admitted and that the equipment sold to the post office was overpriced and outdated. Olivetti and Mr De Benedetti's lawyers have strenuously denied such claims.

However, his incarceration has once again highlighted differences between Milan and Rome

Continued on Page 16

Bavaria's PM exposes split on European union

By Quentin Peel in Bonn

SERIOUS differences have emerged in Germany's governing coalition over European integration within a day of the Maastricht treaty on European union coming into force.

Leading foreign policy spokesmen in the coalition yesterday denounced the views of Mr Edmund Stoiber, Bavaria's prime minister, who said the idea of Europe as a federal state was finished.

Mr Stoiber is the most powerful political figure in the Bavaria-based Christian Social Union (CSU), sister party of Chancellor Helmut Kohl's Christian Democratic Union (CDU) in the coalition. His outburst is likely to be a serious embarrassment for his party leader, Mr Theo Waigel, the finance minister and a co-signatory of the Maastricht treaty.

In a hard-hitting interview with the Süddeutsche Zeitung, Munich's main newspaper, Mr Stoiber called for the integration process to be slowed. He implied that Mr Kohl's passionate commitment to European union was out of date.

"We are no longer striving for a European federal state," he said. "Europe is more than the European Community. I want a simple confederation. That means that tha nation states maintain their dominant role, at least as far as internal matters are concerned."

The danger of Mr Stoiber's views for the ruling coalition is that they undonbtedly reflect growing doubts in the German population. Thosa doubts are likely to see defections at next year's European elections to the far-right parties auch as the Republicans, who openly exploit anti-European sentiment.

Among rank-and-file mambers of the CSU and the CDU there is a growing feeling that Mr Kobl's pasaionate commitment to Europe may be a vote-loser.

In a comprehensive opinion survey published yesterday by the interior ministry, only 18 per cent of west Germans and 12 per cent of east Germans said they could see real advantages for the country in EC membership. A majority believed advantages and disadvantages were equally balanced.

On the other hand, most voters still believed that most difficulties – with the important exception of employment policy – could best be resolved at European level.

Mr Stoiber's ideas were criticised sharply by Mr Peter Kittelmann, EC spokesman for the CDU in the German parliament. He said they went against an agreed CDU and CSU policy paper agreed only last week and could be explained only in terms of provincial Bavarian politics. He was referring to the threat of a rise in support for the far-right Repnblicansin the state, campaigning on an overtly anti-European platform.

Mr Kohl issued a statement reiterating his European convictions, although he too stopped short of defining Europe as a federal state.

The chancellor welcomed the decisioo at last week'a EC summit in Brussels to place the future European monetary institute, and later the European central hank, in Frankfurt. He insisted, however, that strict maintenance of the ecooomic convergence criteria was an absolute precondition for the introduction of a single currency.

The entire German political establishment, overwhelmingly pro-European, is acutely conscious of growing doubts among German voters over European integration.

Associated Press

French and German finance ministers Edmund Alphandery (left) and Theo Waigel meet in Berlin with, in the background, their central bank heads Jean-Clande Trichet (left) and Hans Tietmeyer. Page 16

Italian steel group wins right to buy Ekostahl

By Judy Dempsey in Berlin

THE Treuhand privatisation agency has granted sole negotiating rights to Riva, the Italian steel group, to buy Ekostahl, eastern Germany's largest steel mill, against strong competition from German manufacturers.

However, the European Commission will need to be convinced that the Riva plan for Ekostahl will not lead to more overcapacity in the German steel industry, that its investments contain no hidden subsidies and that its plan is economically viable.

Riva is expected to submit its proposals to the Commission this week, and Brussels should then recommend its findings to the Council of Ministers on November 18.

Under the plan, Riva, the Milan-based privately owned company, will buy 60 per cent of Ekostahl, while Treuhand will hold the remaining 40 per cent stake. Together, they will invest DM1.2bn ($740m) in building a hot-rolling mill, the equivalent of a mini-mill, with an annual capacity of about 900,000 tonnes.

Riva will also guarantee 3,600 jobs, of which 1,700 will be employed at the steel mill. Before 1990, Ekostahl employed over 12,000 workers, most of whom live in Eisenhüttenstadt, Brandenburg, close to the Polish border. The mill was producing more than 2.1m tonnes a year.

Mr Hans Krämer, a board member of the Treuhand, said yesterday that the Riva plan took precedent over its competitors because "it would make Ekostahl economically viable and competitive". Ekostahl is running annual losses of more than DM100m on a turnover of DM1bn.

Treuhand said: "We hope the EC will accept the plan because Riva's 60 per cent stake is private capital." The agency will use its 40 per cent stake to modernise the mill. It is unclear if that stake will be sold once the restructuring and modernisation plans are completed in the next five years.

But Mr Ruprecht Vondran, president of the German Steel Federation, said in a statement that the Treuhand's decision "was highly problematical" and it would add to pressures on overcapacity in the industry.

Riva's German competitors, which included a consortium led by Thyssen and Preussag, and Hamburger Stahlwerke, had rejected the idea of building a modern hot-rolling mill, largely because they did not want another competitor entering the steel sector, or to increase the country's annual capacity.

Thyssen and Preussag had offered to buy 50 per cent of Ekostahl's cold-rolling mill and close down the blast furnace within the next three years.

German output down, Page 2

Daimler-Benz chairman hints at reduced dividend for 1993

By Christopher Parkes in Frankfurt

DAIMLER-BENZ, Germany's largest industrial group, has responded to mounting discontent among its workforce with a warning that it may reduce its dividend for 1993.

Mr Edzard Reuter, group chairman, said in a radio interview that while the company would try to avoid "bitter disappointments" for shareholders, employees could not be expected to be the only people to make sacrifices.

The prospect of a dividend cut was raised despite the company's claims for most of this year that it would try to hold the pay-out at last year's DM13 – drawing on reserves if necessary.

Daimler, embracing Mercedes-Benz, AEG electrical engineering and Deutsche Aerospace, has recently provoked anger among its workers with plans to extend an already heavy joh cuts programme. The planned closure of six Deutsche Aerospace factories, service and logistics centres led to widespread labour unrest.

All operating divisions are expected to make heavy losses this year, and the final result will be worseoed hy a DM1.5bn ($885m) charge to cover the costs of lay-offs and rationalisation.

Daimler, reporting for the first time according to US accounting rules, made a net loss of DM949m in the first half of this year compared with a net profit of DM965m in the same period last year.

The group has ample reserves, including more than DM8bn in appropriated retained earnings revealed in connection with its recent listing on the New York Stock Exchange. Markets had been led to believe these would be used to maintain the dividend, bolstering the group's attractions in advance of a rights issue planned for next year.

However, it appears the board has now decided an unchanged payout would be inappropriate while 44,000 jobs were being cut.

Analysts suggested a reduction to DM10 would be "psychologically" suitable while anything less would be cosmetic.

After falling in early Frankfurt trading, Daimler shares recovered to close DM4.5 higher at DM752. Even so they lagged well behind the blue-chip Dax index which closed at a new record of 2,095.58, and the day's gain was eroded in after-hours trading.

Lex, Page 16
Car chiefs try to defuse opposition, Page 17
Covering the cracks, Page 18

CONTENTS

© THE FINANCIAL TIMES LIMITED 1993 No 32,208 Week No 44 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

None of the Bürgers wants to be Meister

By Judy Dempsey in Berlin

LESS than a month before local government elections, the eastern German state of Brandenburg is having a spot of bother: attracting candidates. In 300 of the state's 1,700 towns and villages, Germany's political parties cannot find people willing to stand as mayors.

"Who wants to stand for mayor when the councils are virtually bankrupt," one official from the Brandenburg government said yesterday. Most of the city and town councils in eastern Germany are running budget deficits as high as 70 per cent. This means that any promises by prospective mayors about opening libraries, kindergartens, or building swimming pools, are sheer flights of fancy.

But it is not only the councils' financial state which provides a disincentive to any prospective candidate. Brandenburg, led by Mr Manfred Stolpe, is the only eastern state in the hands of the opposition Social Democratic party (SPD). The established parties all admit that they are finding it difficult to create local élites in the five eastern states. For 40 years, eastern Germans were "politicised" to the extent that they had to participate in a political system ranging from waving the Red Flag to joining the Youth Movement.

"It takes time to overcome a system in which political participation was compulsory," explained Mr Wolfgang Thierse, an SPD member of the Bundestag, or Lower House, who represents a constituency in east Berlin.

Voters in eastern Germany have also become rapidly disappointed with their new politicians, as the initial euphoria of unification has collapsed with the mass unemployment that it has brought to some regions.

There is also a deeper sense of distrust. The electorate in Brandenburg has seen how Mr Stolpe, who before 1989 had close connections with the Lutheran Church and had tried to defend them, is now pilloried for his alleged connections with the Stasi, the former state security apparatus under the communist regime. "You need to be strong to tolerate non-stop scrutiny of your past," said an official from Potsdam, the capital of Brandenburg. Ms Regine Hildebrandt, Brandenburg's minister for labour, health and women, says she can understand these anxieties.

However, she insists: "We must pull the people out of their lethargy. They just can't sit back and let other people make decisions for them.

"That's what it was like in the former days.

"They must get up and become politically engaged and let their voice be heard, otherwise eastern Germany will be a political wilderness," she added.

Ukraine keeps tight grip on key industries

By Jill Barshay in Kiev

UKRAINE yesterday published a presidential decree continuing its state ordering system into 1994 and opening the door for a tightening of control over key industrial sectors.

The decree, signed by President Leonid Kravchuk on October 28, requires agricultural, consumer goods and military enterprises to sell part of their production to the government at state-determined prices.

It dashes hopes that Mr Kravchuk might try introducing market reforms before parliamentary and presidential elections slated for next year.

Of particular concern is the fact that the decree not only obliges state-owned enterprises – comprising most of Ukraine's industry – to satisfy state orders, but also applies to quasi-private companies that rent space and equipment from the government.

Exclusively private companies are not required to comply with state orders. However, the fate of companies that could be privatised next year is unclear. Large-scale privatisation has yet to be initiated in Ukraine.

The exact portion of production to be sold to the government at fixed prices is still to be determined. But the portion will be financed either directly from the state budget or through central bank credit.

While President Kravchuk signed the decree with the intention of "stabilising production", in Ukraine, where gross domestic product is falling at 20 per cent annually, the result is likely to be a further outflow of funds and the continued support of inefficient state enterprises.

Inflation is currently running at about 100 per cent a month with central bank credit doubling every three months. The karbovanets, Ukraine's interim currency, has plummeted over the past three months, losing more than 80 per cent of its value.

German output marked down

By Christopher Parkes in Frankfurt

WEST GERMAN industrial output fell by a provisional 2 per cent in September, according to price and seasonally-adjusted figures published by the economics ministry yesterday.

The ministry, which said it expected the final figure to be adjusted upwards by a "good two points" later, noted that the result had been decisively affected by a 2.5 per cent drop in manufacturing production.

Total industrial output, which includes mining, construction and energy, stood 7.6 per cent lower than a year earlier, although the ministry's statement suggested the final outcome would be a year-on-year decline of around 5.5 per cent. This would be unchanged from August, when production increased by a revised 2.2 per cent.

The statistics support other indications that the worst of the recession is past, although heavy industry in particular is still struggling and consumer goods production was also markedly lower than it was a month earlier.

According to yesterday's figures, combined output in August and September was 0.5 per cent higher than in the previous two months and 6.2 per cent lower than in the same period a year earlier.

According to this two-month measure, construction – up 2.4 per cent – was the only sector showing any year-on-year improvement. Production of investment goods was 11 per cent lower.

According to the Federation of German Industry (BDI), industrial output will decline further, although only marginally, in the coming months. Prospects for a reversal of the trend seem dim, it says in its latest monthly report.

Consumer demand will expand very slowly. Public demand will remain weak because of spending cuts, and there is little reason to expect a boost to capital spending because of heavy investment in the recent past, the BDI adds.

Camera work: Silhouetted photographers form a backdrop at Cinecittà studios in Rome where Italian film-maker Federico Fellini lies in state. Marcello Mastroianni and Anita Ekberg, stars of his 1960 classic "La Dolce Vita", were among those who paid their respects.

Europe's high-fliers a down to earth lot

By Daniel Green

THE average European business traveller is a family man, often careless with his health, more inclined to sleep than eat on long-haul flights and occasionally prepared to play computer games on his portable computer.

The portrait is revealed today in a survey by Official Airline Guides, a publisher of airline timetables.

It also records national differences in attitudes to air travel. The French are most inclined to ignore in-flight catering and the British most likely to drink alcohol, and the Germans like to both eat and drink.

Women business travellers, just 7 per cent of the total, are the most industrious. Some 69 per cent say they preferred to work on short-haul flights, compared with 61 per cent of men.

More than a third of all passengers polled did not take out full medical insurance and less than half made sure they had the necessary inoculations against disease.

The British were the most conscientious on inoculations, and Germans the worst. One in five passengers usually carried condoms, of which most were married men. One in 12 women travelling also carried condoms, the survey found.

Frequent flyer schemes – in which loyalty to an airline is rewarded with points that can be exchanged for free trips – emerge as an important determinant in airline loyalty.

Some 82 per cent of survey respondents were members of such schemes and two thirds of members said that given a choice of carriers on a route they would choose one to whose frequent flyer programme they belonged.

Ironically, the free flights earned from such schemes were of little importance to the frequent traveller. Top of the list of perks conferred by membership of such schemes, nominated by 32 per cent of respondents, is to be given priority in the waiting list for full aircraft.

Their desires are probably the result of the need to make late changes in itineraries: 20 per cent of business travellers said they did this "very frequently."

By contrast, only a minority of travellers had redeemed any frequent flyer points, perhaps not surprising when only 10 per cent said enjoying leisure time was more important than work or family life.

Illegal labour a growth business

Ariane Genillard on Germany's problems with a cheap import

IT IS 8am and Mr Herbert Botz, who heads the task force clamping down on illegal workers at the labour office in Cologne, scans his first construction site of the day in nearby Leverkusen.

"We have never found a clean construction site in the whole region," says Mr Botz.

In Leverkusen, as in most cases, a letter from a rival construction company caused the surprise search. Three Polish workers are ordered to lay their tools down a few minutes later, when overdue papers show they are not entitled to be on site.

"Often, we just tell them to stop working. Sometimes, they are put back on buses to eastern Europe," says Mr Botz.

More than half a million workers from eastern Europe are believed by trade unions and political organisations to be employed illegally in Germany's construction industry. Gathered in parking lots, they wait to be picked up by employers who are eager to pay less than 25 per cent of a German wage for the same job, says Mr Peter Rack. Albanians, employed for DM3 ($1.80) to DM4 ($2.40) an hour, are the cheapest.

With growing unemployment and bitter price wars for construction contracts, the rising number of illegal job-seekers crossing Germany's porous eastern border is pitting companies against each other and unionists against politicians.

Meanwhile, as the number of unemployed in western Germany in the sector has risen by 3,800 to 76,122 last year, profits in the construction industry have surged by 5.5 per cent, mostly as a result of growth in the east. Nearly 1,000 new construction companies were registered last year.

For IGbau, the construction industry union, the core of the problem lies in labour exchange agreements signed between Bonn and eastern neighbours in the wake of the fall of the Berlin Wall.

These allow 97,104 people from eastern Europe to work in Germany at any time for specific contracts lasting up to a year. Most are employed in the construction industry.

The unions say this has fostered the growth of middlemen from eastern Europe who subcontract their nationals to German companies.

"One middleman gets 30 permits through a contract. But three days later, he exchanges legal workers against illegal ones. This way he can keep people coming in, although they don't have the proper papers," says Mr Hanz Haber, spokesman for IGbau.

Aware of the growing abuses, the authorities have been trying to combat the problem by targeting companies rather than workers. Since the beginning of the year local officers can check construction sites without search warrants.

IGbau, which wants the labour agreements cancelled and greater protection of the local highly regulated labour market, claims the authorities are deliberately turning a blind eye to the problem. It says the government, which has already asked Poland and the Czech Republic to take back asylum-seekers, is reluctant to apply further pressure.

Pressure on the government has also come from organisations representing small and medium-sized companies squeezed by falling prices for construction contracts.

"We want the government to allow a limited number of eastern European workers per enterprise, depending on the labour force it employs," explains Mr Julius Louvenen, from the Christian Democrats' small business lobby group.

Talks with the government, which started a year ago, have been fruitless, prompting an IGbau threat to take the government to the constitutional court to introduce tighter wage controls in the workplace.

Meanwhile, some attempts are being made to improve the control on the workers on a construction site. Special passes have recently been issued to facilitate regular check-ups. But fines for illegally employing workers have not been significantly increased.

"We get caught, the boss pays the fines and we come right back. For big employers, the fines are peanuts. They'll make the money back in one month, if you ask me," says one illegal worker before vanishing into the crowd.

French fingers crossed as the economy shows signs of revival

By John Ridding in Paris

FRANCE'S economy minister is cautiously optimistic. Despite the steady rise in unemployment the French economy is beginning to show signs of revival from one of the deepest recessions since the second world war.

"It is clear that take-off has still to take place," says Mr Edmond Alphandéry. "But the economic climate is moving in the right direction." He bases his view on a series of statistics released over the past 10 days showing encouraging trends from industrial production to exports to consumer spending.

The figures lend weight to Mr Alphandéry's argument that the economy has stabilised after a sharp contraction which set in at the end of last year. But the big question is whether the improvement in economic indicators is sustainable, and whether it is strong enough to lift the economy from its slump.

The biggest surprise in the latest batch of data has been consumption, the Achilles heel of the economy in the first six months of 1992, but which rose by 2.1 per cent in the third quarter over the second.

"The pattern of consumption was stronger than had been expected," said Mr Jean-François Mercier, economist at Salomon Bros. Most economists had forecast that an increase in social security contributions which took effect in July together with a rise in indirect taxes on cigarettes, alcohol and petrol, would persuade consumers to keep their hands in their pockets.

Industrial production, too, has been stronger than forecast. In July and August, lumped together because of the relatively quiet holiday period, it rose by 1.3 per cent over June. A survey of French business leaders by Insee, the national economics institute, revealed confidence that production at their companies had also increased in October.

On the international front, French industry is resisting the effects of recession in many of its principal markets and the increased competitiveness of rivals in Britain, Italy and Spain, which have benefited from currency depreciation. Trade statistice announced last Friday showed a surplus of FFr10.4bn (£1.21bn) in July, including a surplus of FFr4bn with EC trading partners. Total exports in the month amounted to FFr96.8bn, compared with FFr94.9bn in June.

"If you take all these indicators together, the effect is encouraging," saya one merchant bank economist. "But I wouldn't open the champagne yet."

The French government is similarly guarded. "The economy is ripe for recovery," said Mr Edouard Balladur, the prime minister, last week. "But it is better to err on the side of caution than be too optimistic."

Such caution is justified by the uncertain prospects for the current quarter. Economists are divided about whether the improved indicators will be repeated or whether they are merely a blip.

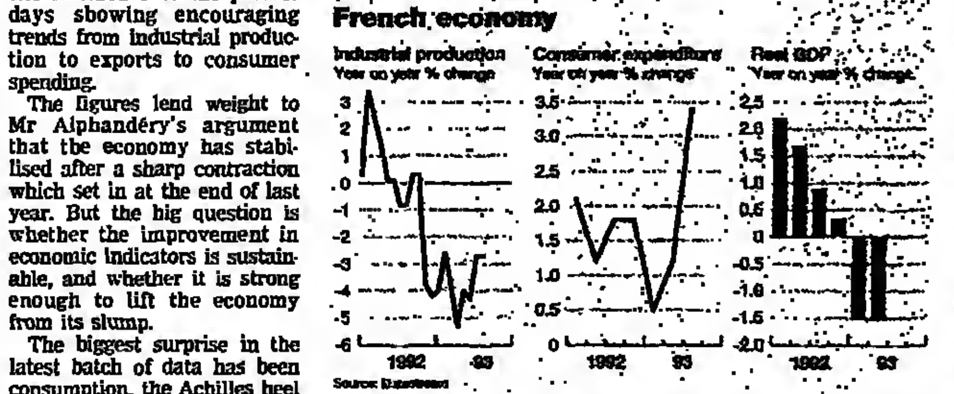
Salomon Bros' Mr Mercier believes a double dip recession, with a contraction in the fourth quarter, remains a possibility. He expects gross domestic product to expand by just 0.5-0.6 per cent next year; the government is forecasting 1.4 per cent growth. Some economists are more optimistic. Mr Robin Hubbard at Paribas Capital Markets, for example, thinks a 1.5 per cent rise in GDP next year is "eminently feasible".

The principal factors in the economy's performance over the next quarter are likely to be the strength of consumer spending and exports. According to the optimistic scenario, household consumption will be sustained by a rise in real disposable income and a fall in the savings ratio. This view is supported by the low level of inflation and the rise in labour productivity, increasing by about 2 per cent per annum, and by the historically low level of interest rates which reduce the incentive to save.

Such forecasts, however, are weakened by the continued impact of the rise in unemployment. In addition to reducing disposable incomes among the proportion of the population with the largest propensity to consume, the prospect of joblessness has a powerful psychological effect on spending. With unemployment forecast to breach 12 per cent by the end of this year and to continue to rise through the first quarter of 1994, any recovery will be constrained.

On the external front, exports will be boosted by the weakening of the franc, on a trade-weighted basis, since the collapse of the European exchange rate mechanism in the summer. But recession in Germany, France's largest trading partner, and the slow pace of recovery in the UK and US will continue to depress international demand for French goods.

The overall result is likely to mean a gradual but fragile rise from recession. It is unlikely to mean a shift from existing economic policies. French economic officials argue that the benefits of a strong franc policy are evident in the competitiveness of industry and are illustrated by the latest trade figures. An aggressive cut in short-term interest rates now, they claim, would simply raise long term horrowing costs. This would threaten, rather than nurture, the first shoots of recovery.



Strike ends at Austrian Airlines

PILOTS and cabin crews at Austrian Airlines yesterday voted overwhelmingly to end their strike, which had crippled the national carrier for five days, writes Patrick Blum from Vienna. The decision follows a compromise giving the unions a say in any future restructuring plans.

The militant flight employees' union abandoned its initial demand for the resignation of the management board.

The strike was called in protest at plans to cut the 4,500 workforce by 500 in an effort to trim expected loses of Sch830m (£49m) this year. Services are expected to return to normal today.

Call to remove Tapie immunity

A French judge yesterday asked for the parliamentary immunity of Mr Bernard Tapie, the controversial French politician who is chairman of the Olympique-Marseille football club, to be lifted so he can be questioned over his suspected involvement in a bribery case against the club, writes Alice Rawsthorn from Paris.

Deutsche Bank prepares to open wide the doors on its past

The secretive institution plans 'no-holds-barred' history, writes David Waller

TOWERING above Frankfurt's financial district are the twin skyscrapers of Deutsche Bank's headquarters. The buildings are made of of steel and glass: blue reflective glass which is eye-catching but not designed to let anyone look inside.

This lack of transparency has long been a characteristic of the bank, Germany's most powerful financial institution with profits as big as those of its three main competitors combined. Deutsche Bank has been at the heart of German capitalism since shortly after it was founded in 1870, and has always been highly secretive in its dealings with the outside world.

A portion of the veil, however, is set to be lifted. To celebrate the bank's 125th anniversary in two years' time, Deutsche has commissioned a "no-holds-barred" history of the bank from five leading economic historians, each concentrating on a particular period. The bulk of the material has already been completed and was presented to international scholars in Frankfurt last month. The history itself will be published in German and English in 1995.

The historians, at work on the project since 1988, have more recently been able to draw on the bank's archives for the years 1870-1945. These only became available after German reunification in 1990; before then they were held in the east German city of Potsdam.

With a budget of DM1m (£400m), the project was initiated by Mr Alfred Herrhausen, the former chief executive of the bank killed by terrorists in 1989. It has the active support of his successor, Mr Hilmar Kopper, who makes a point of finding time amid his frantic schedule to attend the meetings of the committee co-ordinating the project.

According to Prof Manfred Pohl, the bank's in-house historian, the aim is to take the writing of corporate history to new levels of academic excellence. All too often, he says, corporate histories diminish their intellectual authority by their desire to present an unremittingly positive view of the company in question.

For the Deutsche Bank, as for other German financial and industrial institutions, there is one area of obvious potential embarrassment when scrutinising the past – collaboration with the Nazi regime in the 1930s and assistance with the war effort in 1939-1945.

Last time the Deutsche Bank published a history, to celebrate its 100th anniversary in 1970, the issue was not confronted. Barely a mention was made of a report by the finance division of the Office of Military Government, United States Finance Division (OMGUS) which described how the bank, in common with other large financial institutions, financed the war effort, facilitated its industrial customers' use of slave labour, expanded its branch network into the territories occupied by the Wehrmacht, and participated in the Arianisation of German business.

This time, there will be no fudge: the bank is intending to stare this unpleasant aspect of the past directly in the face. It demonstrated this commitment last month when it held a seminar on the bank's role in financing Universum Film, Germany's film monopoly in the 1920s and 1930s which developed into a central organ of Goebbels' propaganda machine during the Third Reich.

The company was founded in 1917 at the initiative of Mr Emil Georg von Strauss, a director of the bank, and Deutsche owned a stake in the organisation during the twenties when it made a made a number of early film classics such as Fritz Lang's "Metropolis". The bank sold out in 1927.

Moreover, says Prof Pohl, the commitment to objectivity has been underscored by the decision to appoint Prof Harold James, an Englishmen now at Princeton University, to cover the most sensitive period of all: 1933-45. Prof James is the official historian of the International Monetary Fund and writes on German affairs.

The OMGUS team reported that Deutsche Bank and Dresdner Bank, Germany's second biggest bank then and now, had too great a concentration of economic power. They recommended that the banks should be wound up and their senior executives tried as war criminals and barred from taking up positions of responsibility in post-war Germany.

The winding-up did not happen. Broken down into regional organisations by the allies, the banks were reformed in 1957 and soon developed for themselves a central role in post-war capitalism.

Nor did bank personnel find themselves excluded from office, as witnessed by the career of the legendary Mr Hermann Josef Abs, Deutsche's first chief executive after the war. He joined the board of the Deutsche Bank in 1938 and although he was never a member of the Nazi party, and provided personal help to Jewish businessmen and their families during the war years, he was roundly criticised by the OMGUS investigators.

Mr Abs is today 92 and still able to prosecute his causes with a flavour of the old doggedness – nowadays in the art world rather than in the boardroom. After brief internment after the war, he went on to be one of the chief architects of Germany's economic revival.

The Abs theme is likely to be of special interest to readers of the official history. But the narrative from the more distant past should also provide insight into the mysteries of present-day German capitalism. For example, the chapters covering 1870-1914 and 1914-33 will deal with the bank's role in sponsoring companies such as Siemens, AEG, Daimler-Benz and Mannesmann in their early years. Its links with these companies are still close.

Yeltsin castigates ministers on reform

By John Lloyd in Moscow

PRESIDENT Boris Yeltsin of Russia yesterday told his government ministers that they were dragging their feet on reforms and ignoring the social needs of the population.

In a stiff rebuke he said that those who took part in the Moscow demonstration a month ago which culminated in armed clashes round the parliament and the TV stations were "not just criminals and bandits, but also desperate people," deprived of benefits and wages.

The Russian president said that a separation of powers embodied in the presidency and a new parliament – to be elected on December 12 – was essential, in spite of what he described as the growing affection of some officials and ministers for an authoritarian system.

It was, he said, "a crude mistake" on their part to doubt the need for different levels of anthority. "I must tell you, such a practice will not be supported by the president," he said.

Mr Yeltsin said that steps must now be taken to make the rouble convertibla "stage by stage," building on its stable rate against the dollar in the past few months. He said, bowever, that the state must be actively involved in the management of the economy – instancing tbe need to develop an efficient mechanism of land sales following his decree last week allowing Russians to buy and sell land freely.

Also speaking to tbe enlarged meeting of the cabinet with regional leaders, Mr Viktor Chernomyrdin, tbe prime minister, said that Russia now had the "blueprint for a market economy" – and forecast a slowing of inflation and the fall in production in the coming months.

Figures in a report considered by the ministers yesterday pointed to a continued fall in Russia's gross domestic product, by 11 per cent in the first nine months of 1993 compared with the same period the previous year. Industrial production fell by 17 per cent and capital investment by 10 per cent – while inter-enterprise debt grew to Rbs11,300bn and national income fell hy 15 per cent – an index of the rapid rise in poverty.

The budget deficit for the year is put at Rbs17,000hn, with a fourth quarter deficit of Rbs5,500bn – Rbs4,500hn of which will be financed by Central Bank borrowing and the remainder by the issuing of government bonds. Mr Chernomyrdin, however, said "the worst is now over," and inflation – now around 20-25 per cent a month – should come down to 16 per cent by next March and end next year at around 5 per cent. The trade surplus for this year is expected to be around $21bn, after drastic pruning of imports.

Both the president and the prima minister criticised – without naming names – members of the cabinet who are now engaged in election campaigns as leaders of their various parties. Mr Chernomyrdin, brusquely denying any interest in politics and any intention to support one or othar party, said that ministers wishing to campaign should either do it in their free time or – like Mr Dergei Shakhrai, the deputy prime minister – leave the government to work the campaign trail full time.

Balladur warns Moscow

France's prime minister, Mr Edouard Balladur, said yesterday that President Boris Yeltsin's Russia had a big role to play in Europe's future but made it clear there should be no retreat from democracy, Reuter reports from Moscow.

Mr Balladur told a Moscow news conference that Mr Yeltsin's leadership "incarnates democratic legitimacy" and France's goodwill would embrace the parliament which emerged from next month's elections.

Mr Balladur was the first western head of government to visit Moscow since Mr Yeltsin used tanks to crush an armed revolt on October 4 in a dramatic showdown with hardline deputies who had blocked his market reforms. The French prime minister used his two-day visit to press his country's initiative for a proposed pact on European security which received backing from the European Community at the summit in Brussels last week.

He said that he had told Mr Yeltsin and the prime minister, Mr Viktor Chernomyrdin, that Russia would be "an essential partner" for the success of this initiative. Mr Balladur was at pains to say nothing that could be construed as interference in the run-up to Russian elections on December 12.

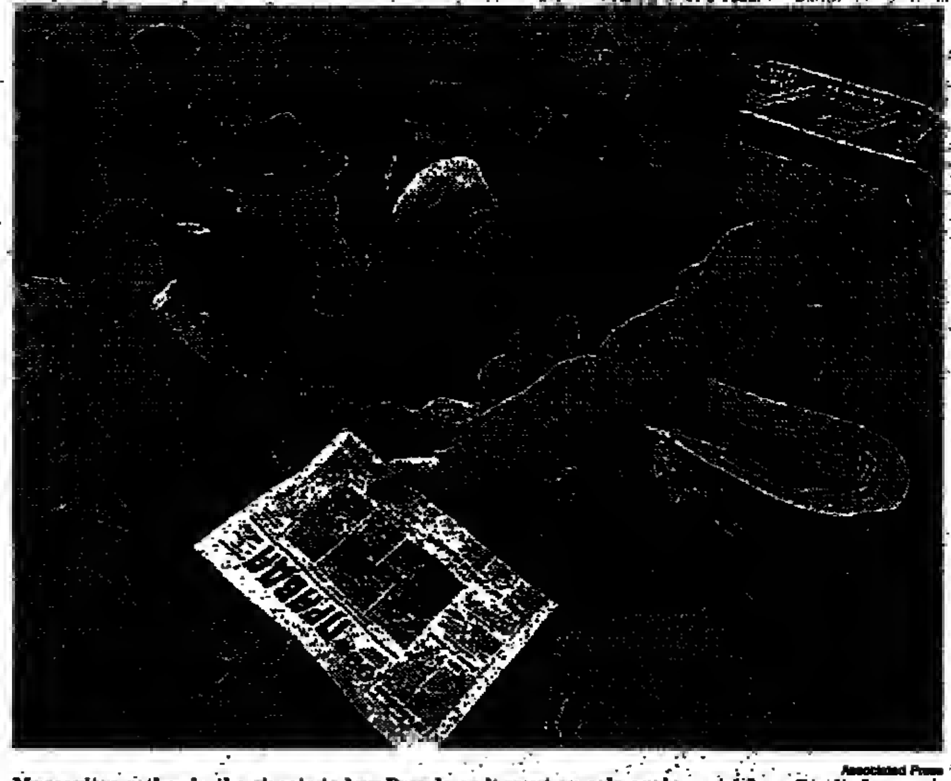
Pravda returns to the struggle

By John Lloyd

"WE'RE BACK," said the headline over the front-page editorial in Pravda yesterday. After a month's ban, the Soviet Union's most famous paper, founded on May 5, 1912, by Lenin, is out again – and, says the leader: "We're not changing our convictions."

If not its convictions, the paper has at least changed its tactics. Once absolutely required reading for 20m Soviet communists, it must now compete in a raucous marketplace of publications in which its pre-ban circulation of just under 500,000 will be hard to maintain.

It has had to compromise with the authorities to get back on the streets. The former, hardline editor, Mr Gennady Seleznev, has been sent upstairs to the editorial board: in his place his former deputy and one-time New York correspondent, Mr Viktor Linnik – a clever man of 49 who has in the past year attended seminars in Moscow on press freedom and who said flatly yesterday: "We are against extremism and violence of all kinds – on the left as well as on the right."



Associated Press

Muscovites gather in the streets to buy Pravda as it went on sale again yesterday after its ban

Nothing illustrates that better than its attitude to the parliamentary elections called for December 12. In a front-page article, Mr Viktor Trushkov says that boycotting the elections in the hope that the required number of voters would not turn out was rendered futile by the presidential decree establishing 25 per cent as the minimum turnout, down from tha previous 50 per cent.

"This means that for opposition supporters to boycott these elections would have only ona result: the federal assembly (parliament) would be absolutely in the pocket (of the president), and it would have no deputies committed to defending the interests of the working man. No, we must go to the elections in December."

Pravda, switching editors and eschewing extremes, is the only one of the banned papers to return: the nationalist (and more extreme) papers Sovyetskaya Rossiya (daily) and Den (weekly) are still banned, as is the popular "600 Seconds" television programme presented by Alexander Nevzorov – who has turned up among the leading candidates of the right-wing Constitutional Democratic party. While the main Communist party will take part in the elections, many of the smaller Leninist and Communist groups, some of them still banned, have refused.

Pravda's reappearance has many ironies – none sharper than its eager endorsement of the complaints of foreign human rights organisations against the Russian government's bans, organisations it would, it its heyday, have dismissed as interfering in the internal affairs of the Soviet Union.

A letter from Mr Jiri Leber of the New York-based Helsinki Watch Committee, expressing concern on the press bans, is displayed on the front page – and in the foreign section, correspondants from Paris, Vienna and Washington report on the support for Pravda's freedom to publish.

With only four (broadsheet) pages, a restricted circulation, short of funds and newsprint and with Lenin no longer the draw he was, Pravda has returned not just to the streets, but to its origins in the opposition and in struggle. But – for now – within constitutional limits.

Rouble zone faces more breakaway pressure

By Gillian Tett in Moscow

THE disintegration of tha Russian rouble zone appeared to be gathering pace yesterday after officials in Uzbekistan said they intended to issue a joint currency with Kazakhstan in an attempt to merge their economies and break away from Moscow's fiscal control. Mr Fakhtiyar Khamidov, Uzbek vice-premier, speaking in Tashkent, said that talks with Moscow to create a new rouble zone were now "deadlocked," forcing the republic to develop its own currency.

"The conditions of Russia are enslaving. Uzbekistan and Kazakhstan are now planning to introduce a new currency," Mr Zafar Ruziev, foreign ministry spokesman, was quoted as saying.

The Kazakh government in Alma Ata yesterday denied that any concrete plans had been agreed with Uzbekistan for a new currency.

But in the wake of a bitter attack by Mr Nursultan Nazarbayev, Kazakh president, on Russia's rouble policy, the republic appears to be moving closer to breaking away from the rouble zone.

Earlier this week Turkmenistan, the gas rich central Asian republic, became the fifth republic to formally issue its own currency, joining the Baltic states and Kyrghystan which have broken out of the rouble zone over the last year.

Croats and Serbs talk in Norway

By Laura Silber in Belgrade

CROAT authorities and Serb separatists have been holding secret talks in Norway on brokering a ceasefire, a Serb official revealed yesterday.

Mr Hrvoje Sarinic, Croatian security chief, headed the Croatian delegation, and met Mr Goran Hadzic, "president" of Krajina, and his "foreign minister", Mr Slobodan Jarcevic, at tbe three-day talks, said diplomats.

Observers immedietely began drawing parallels between the clandestine negotiations and tbe Palestinian-Israeli talks held in Norwegian farmhouses, which ended in a milestone peace agreement.

But Serb officials yesterday said the two sides remained far apart despite leaked reports that Mr Franjo Tudjman, the president of Croatia, would meet Mr Slobodan Milosevic, bis Serbian counterpart, in Oslo later this week.

"We can gain absolutely nothing, because at this time neither side is willing to back down," said Mr Branko Filipovic, "foreign ministry" official of Krajina, the self-styled Serb state which covers one-tbird of Croatia, cutting the republic in half and isolating Croatia's southern Dalmatian coast from the country's heartland.

"Our [Serb] participation can be treated as a bilateral meeting between two sovereign states," said Mr Filipovic.

Lord Owen and Mr Thorvald Stoltenberg, tbe international mediators, have recently stressed that the resolution of the Serbo-Croat conflict is a pre-requisite to ending the war in Bosnia.

Get-rich game nears end in Transylvania

By Virginia Marsh in Bucharest

ION Popescu is something of an exception in the Transylvanian city of Cluj, bome of Caritas, the Romanian money-spinning scheme which has drawn in more than 3m investors and created a new class of Lei millionaires in the town.

"I sincerely hope Caritas collapses and soon. It's a terrible thing. I'm a private businessman and I can't get anyone to work for me. People here have so mucb money they won't work for normal salaries any more," he says.

Mr Popescu may not have long to wait.

For two days this week, Caritas, which promises investors a seven-fold return on tbeir money in around 100 days, failed to pay out to depositors for the second time in a month.

These days, not even tbe miners, who earn on average four times as mucb as other Romanian workers, are sinking much cash in the scheme. In the summer it attracted tens of thousands of new investors each week.

Business is already slack in the mining town of Petrosani, some 300 km south of Cluj, where Caritas's owner, Mr Ioan Stoica, last week opened a new branch with tbe belp of Mr Miron Cosma, tbe miners' leader who led his men on anti-reform riots in Bucharest in 1990 and 1991.

Most in Cluj say they hope the scheme will continue but few seem worried by the prospect of its imminent collapse.

A local lawyer says: "Tbe town is booming. People bere are content. They have already made a lot of money out of Caritas because they started playing last year." Analysts attribute the popularity of the game to Romania's deteriorating economic situation which has caused real incomes to drop by 40 per cent since 1989 and annual inflation to surge to nearly 300 per cent.

Others say Caritas is a product of incomplete reforms in a country where conservative politicians have held up the creation of a stockmarket or a modern banking system.

Many fear a backlash against reform and market initiatives once the inevitable collapse comes. The country's leaders explain their failure to ect on inadequate regulations.

But opposition politicians say the government, e weak left-wing minority, has not intervened for fear of losing the support of the Romanian National Unity party (RNUP), upon which it relies to stay in power. Mr Gheorghe Funar, the mayor of Cluj, is also RNUP president and one of Caritas's most enthusiastic backers. He has often appeared with Mr Stoica in recent weeks to drum up support for the flagging scheme. The prosperity that Caritas has brought many to Transylvania, Romania's ethnically-mixed western province, has boosted the mayor's popularity.

However, Mr Funar's political opponents hope the scheme's collapse will provide a backlash against the mayor, for through Caritas Mr Funar has shown he can provide solutions for the people of the province. "People tbare have already been enriched by the scheme. It's the laggards in the rest of the country who put their money in later who will suffer."

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International).
Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

Violence and disillusionment mark Colombia polls

Politicians duck bombs and bullets while they battle to beat distrust among voters over corruption, writes Sarita Kendall

POLITICS is not e safe profession in Colombia. Yesterday the campaign offices of the governing Liberal party's presidential candidate was dynamited, injuring one person. Last month, guerrillas blew up an electoral registry office and a political party campaign office.

Over the last five years, five of the top six presidential candidates in next May's presidential election have variously survived shootings, a kidnap, a grenade ettack and bombings. Politicians acknowledge that it is too dangerous to campaign in some parts of the country.

On top of this, Colombia's 14 presidential contenders are having a difficult time overcoming disillusionment with party politics and corrupt political practices.

So many candidates might be expected to produce wide-ranging programmes and choice, but the early stages of the campaign have been marked by moral skirmishes rather than debates about violence, social problems or the economy.

The 1994 electoral calendar is a heavy one for apathetic voters: congressional elections take place in March and Colombians will vote for president in May. If no candidate polls more than half the ballots there will be a run-off between the winner and runner-up. Then local government elections - which excite much greater enthusiasm now that budgets and responsibilities have been decentralised – follow in October.

The two candidates leading the opinion polls by a big margin – Mr Andres Pastrana of the Conservative New Democratic Force and Mr Ernesto Samper of the Liberal party – will probably fight it out in the second round of the election. Both are under 50 years, firmly entrenched in the political establishment and neither would represent an abrupt change of direction.

Mr Pastrana, the son of a former Conservative president, was the first elected mayor of Bogota and is now e senator. Keeping his distance from the campaign scramble – he has yet formally to declare his candidacy – appears to have done Mr Pastrana's popularity no harm, though some commentators are becoming impatient with his reticence.

Although Mr Samper was minister for economic development at the beginning of President Cesar Gaviria's government he has criticised the speed of the liberalisation process. His emphasis on jobe and social spending does not, however, imply an about-turn in economic policy.

As a strong party man Mr Samper has had the time to build up a big parliamentary and regional following. But in a country where e third of the mayors and more than 15 congressmen are being investigated for irregularities ranging from misuse of public funds to collaboration with the guerrillas, this is not always an advantage.

A few weeks ago Mr Samper used the "ethical code" developed for his campaign to expel three congressmen from his movement because they had attended a political meeting with someone accused of drug trafficking.

Despite much talk about clean campaigns and the vetting of contributions, the incident took most people by surprise. Not only did Mr Samper risk losing some 50,000 votes controlled by the congressmen but, politicians asked anxiously, where would such purges end?

On the outskirts of Bogota, in the poorer *barrios* of Usme, people are sceptical about candidates and voting procedures. Neglected by the local administration, the inhabitants took matters into their hands and organised a strike in June. As a result, some teachers have been appointed, water pipes put in and pot-holes filled.

"Last time about 20 per cent of the potential electorate voted. There are two positions – either people vote because they are offered housing subsidies or school places for their children or some other bribe. Or they don't vote at all, because there's no real difference between the candidates," said Mr Nelson Cruz, a founder of the Usme civic movement.

The murders in the last campaign of two left-wing presidential candidates and Senator Luis Carlos Galan, who was expected to win the election, fuelled distrust of the process. At least four candidates are standing on largely anti-corruption platforms.

General Miguel Maza, former head of the secret police, is one of them: "People want change.... Drug trafficking has brought a distortion of moral values. We have to fight this. The surrenders and negotiated sentences have been a failure."

Like most of the candidates, Gen Maza is against the legalisation of drug use or trade. But the issue is being debated more frequently as successive administrations fail to find other solutions and as the infiltration of key state institutions by traffickers is exposed.

Without doubt, the biggest disaster of President Gaviria's four-year term was the escape from jail last year of Pablo Escobar, the leader of the Medellin cocaine cartel. Any candidate with an outside chance must be hoping that the drug chief will be dead or back in prison before the new presidential term begins next August.

States win approval for welfare reform

By George Graham in Washington

THE US administration has given the go-ahead for pilot plans to reform welfare benefits in Wisconsin and Georgia that could serve as experiments for the broader overhaul of the welfare system promised by President Bill Clinton.

The Wisconsin plan would cut off cash payments under the principal welfare programme, known as Aid to Families with Dependent Children, after two years, although it would continue to provide food stamps and health coverage. The pilot scheme will be started in two counties in 1995.

Republican Governor Tommy Thompson has made Wisconsin a pioneer in welfare reform, with experiments such as Schoolfare, cutting payments to teenage mothers who do not go to school.

In Georgia, the state does not plan a time limit on benefits, but wants to reduce welfare payments to able-bodied adults who refuse offers of work and deny increases in payments to families on long-term welfare who have more children.

The federal government, which has to grant waivers to states wishing to depart from normal US welfare rules, is also considering proposals from Florida and Vermont for time limits on welfare benefits, and White House officials have said that a two-year limit will be a central feature of Mr Clinton's own welfare reform plans.

The promise to "end welfare as we know it" was an important theme in Mr Clinton's election campaign. Although he named a welfare reform task force in June, the reform has been held up by delays in passing the budget and is now expected to be delayed until the ambitious reform of the healthcare system has passed Congress.

Clinton presses Congress for gun controls

PRESIDENT Bill Clinton pressed the US Congress yesterday to impose a waiting period before handgun purchases as "the first step" to controlling violent crime, AP reports from Washington.

"I think it's going to be very difficult for the Congress to justify continued inaction on what millions of Americans believe is the No.1 problem in their lives," the president said. He appeared with Mr Jim Brady, former White House press secretary to President Ronald Reagan.

Mr Brady and his wife, Sarah, are leaders of Handgun Control, an anti-gun lobbying group. He was badly wounded in the 1981 assassination attempt against Mr Reagan.

Mr Brady's espousal of handgun controls had left him estranged from the Republican administrations of Mr Reagan and Mr George Bush. He was welcomed back to the Oval Office he once frequented to help Mr Clinton build support for the Brady Bill, which calls for a waiting period on handgun purchases of five business days, when a background check would be required.

Mr Clinton predicted the bill would pass this year. It passed a House Judiciary subcommittee last week.

Mr Clinton hoped the full judiciary committee would complete work on it this week.

He said that it would be brought up in the Senate as a separate issue, apart from a crime bill, "so that no one will be able to hide behind other issues and try to find clever ways to filibuster it".

Pained Senate weighs harassment charges

By Jurek Martin in Washington

FOR the second day running Senator Bob Packwood, the Republican from Oregon, yesterday tried to persuade his colleagues in the Senate to accept a compromise whereby he would hand over some, but not all, of his possibly incriminating private diaries.

The Senate ethics committee is seeking approval for a subpoena for all the diaries, dating back to 1969, as part of its investigation into charges that Mr Packwood sexually harassed more than 25 women.

Senator Richard Bryan of Nevada, Democratic chairman of the committee, announced last week that extracts perused so far suggested Mr Packwood may also have engaged in other improper but unspecified activities.

Mr Packwood's compromise would make available all the diaries relevant to the harassment accusations and to the additional charge, reported in an Oregon newspaper over the weekend, that he tried to persuade lobbyists to hire his former wife. The rest would be turned over to an independent arbiter who would pass on what he considered relevant.

Far more notable than the substance of Mr Packwood's offers has been the intense embarrassment, even pain, that his performance on the Senate floor has caused his saddened and grim colleagues. Leaping constantly to his feet to interject, sometimes incoherently and contradictorily, he has given the appearance of a man at the end of his emotional tether.

Privately many wish Mr Packwood would simply resign and go eway, or that the voters of Oregon would try to recall him. But in a long political career as a quintessential Republican moderate, the senator has always been known as a man to fight his corner, be it politically or personally.

He was narrowly returned to a fifth six-year term a year ago. Shortly thereafter the Washington Post published details of the sexual harassment accusations against him. Mr Packwood initially blamed his problems on alcohol but has shown no signs of resigning his seat. In fighting back he has intimated knowledge of extra-marital affairs by other members of Congress.

There has been some sympathy for his contention that the ethics committee staff should not be given licence to "rummage through" his personal papers and some criticism of Mr Bryan for having spoken of possible criminal charges.

But the sentiment of the Senate seems clearly behind its own ethics committee and its arguments for a subpoena. Senator Barbara Mikulski, the Maryland Democrat and a committee member, maintained with some force that "we are not the committee on voyeurism".

Senator Patty Murray, the Washington Democrat, also reminded colleagues that sexual harassment charges against a sitting senator were not to be taken lightly, especially after the embarrassing spectacle of the Senate's grilling of Professor Anita Hill two years ago during the hearings on the nomination of Judge Clarence Thomas to the Supreme Court.

Senator Packwood: offered to compromise over his diaries Reuter

Venezuela lets foreign bankers in

By Joseph Mann in Caracas

FOREIGN investors will be allowed a place in Venezuela's financial system in the most sweeping legislation the country's banks have faced in 20 years.

President Ramon Velasquez yesterday signed a law reforming banking and finance.

The reform, which takes effect from the start of next year, is the last big element in an ambitious economic adjustment programme initiated in early 1989.

Among the main provisions in the new law are:

- Foreign financial institutions may hold majority stakes in Venezuelan banks.
- The Superintendency of Banks, the government supervisory agency for financial institutions, is given independence and new authority.
- Stiffer capital requirements for banks are established.
- Financial institutions are provided with a modern legal framework.

Government supervision has until now been weak and Venezuela's financial system has been hampered in its attempts to develop full-service banks. In the 1970s, equity investment in banking by non-Venezuelans was limited to a maximum of 20 per cent, and several international financial institutions sold their shares in local banks.

Some Venezuelan bankers opposed the reform, calling for more gradual changes.

Law Lords back Jamaican Death Row prisoners

By Robert Rice, Legal Correspondent

MORE than 100 prisoners on death row in the Caribbean could have their sentences commuted to life imprisonment following a ruling by seven Law Lords in London yesterday.

The British judges sitting as the Judicial Committee of the Privy Council, which remains the final court of appeal for 16 Commonwealth countries including Jamaica, allowed the appeal of two Jamaicans, Mr Earl Pratt and Mr Ivan Morgan, who have been under sentence of death for murder since 1979.

Commuting their sentences to life imprisonment the judges said it was "an inhuman act to keep a man facing the agony of execution over a long extended period of time".

On three occasions the death warrant had been read to the men and they had been removed to condemned cells next to the gallows. This alone was sufficient to bring home to people of normal sensitivity and compassion the agony these men had been through over 14 years, the judges said.

There was "an instinctive revulsion" against the prospect of hanging a man after he had been held under sentence of death for many years.

The Law Lords said that in future, where an execution was to take place more than five years after sentence, the case should be referred to the Jamaican Privy Council with a recommendation that the sentence should be commuted to life imprisonment.

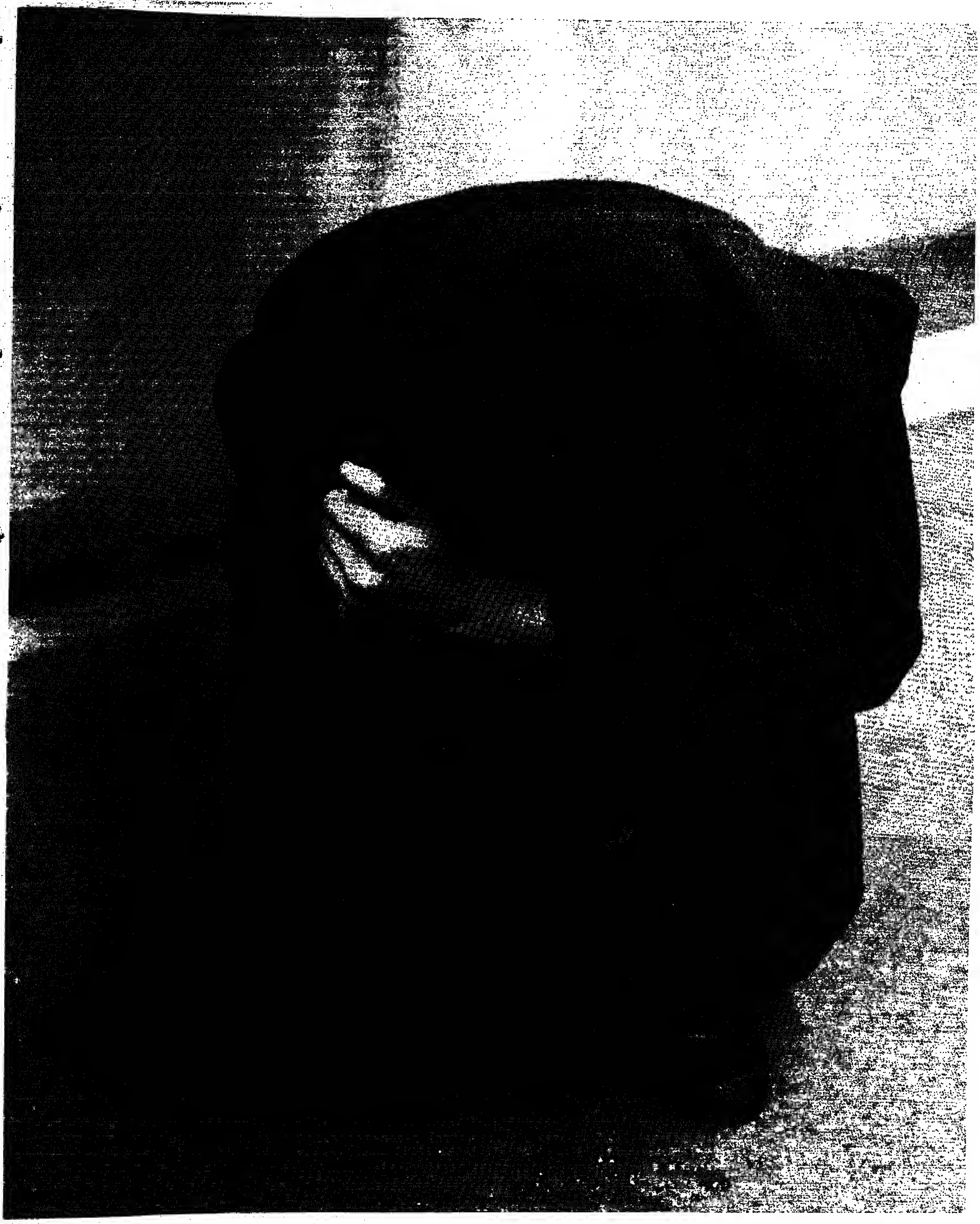
There are now 23 prisoners on death row in Jamaica who have been awaiting execution for more than 10 years and 82 prisoners who have been awaiting execution for more than five years.

The Law Lords continued: "A state that wishes to retain capital punishment must accept the responsibility of ensuring that execution follows as swiftly as practicable after sentence, allowing a reasonable time for appeal and consideration of reprieve."

The delay in the present case was "wholly unacceptable" but would never have reached anything like its present dimensions if the governor general and the Jamaican Privy Council had reviewed the case early in 1981 after the prisoners' application for leave to appeal had been dismissed.

The Law Lords said they were conscious that the Jamaican government faced great difficulties with a high murder rate and limited financial resources.

But they warned: "Nevertheless, if capital punishment is to be retained it must be carried out with all possible expedition."



World Bank, IMF support economic reform package

Kenya may seek debt rescheduling

By Leslie Crawford in Nairobi

MR MUSALIA Mudavadi, Kenya's finance minister, warned yesterday that Kenya might have to reschedule part of its $7bn (£4.7hn) external debt because of an accumulation of $700m in arrears resulting from the suspension of foreign aid.

Mr Mndavadi raised the probability of debt renegotiations as the World Bank and International Monetary Fund announced their support for a three-year programme of economic reforms designed to mend Kenya's estranged relations with the international donor community.

The IMF's endorsement of Kenya's new economic policies is critical for the success of a donors' conference in Paris this month which will discuss the renewal of financial aid. However, there were no immediate signs thet the IMF was preparing to resume financial assistance to Kenya.

It would be the first time Kenya has sought to refinance its foreign obligations with the Paris Club of creditor nations. Kenya took pride on its repayment record until donor governments, irked by corruption and economic mismanagement, suspended balance-of-payments aid in November 1991, worth about $40m a month.

"The arrears component of our foreign debt may require rescheduling," Mr Mudavadi said in an interview with the Financial Times. Apart from the issue of arrears, Kenya also faces a large balance of payments gap due to its trade deficit and heavy debt servicing obligations.

Mr Mudavadi declined to put a figure on the balance of payments shortfall, which will form the basis of Kenya's appeal for the resumption of financial assistance. To avoid disappointment, Mr Mudavadi said he was not going to Paris witb a shopping list of demands.

But given the central bank's foreign exchange reserves of just $260m, private-sector economists believe Kenya is heading for a balance of payments crisis unless donor governments are prepared to resume a measure of financial support.

Mr Hiroyuki Hino, head of the IMF delegation to Kenya, said the economic programme which had his blessing would be presented at the donors' meeting in Paris.

The policy framework paper outlines Kenya's commitment to cutting the budget deficit, curbing inflation from its present 50 per cent a year, and rooting out corruption in the state sector.

The economic programme will be an important factor in the discussions with donors, but by no means the only one. Donor governments have recently voiced concern over the rising level of ethnic violence in Kenya, and the government's apparent indifference to the plight of thousands of displaced peasants in the Rift Valley.

There are also concerns despite recsnt government moves to clamp down on financial improprieties in the banking sector, not a single wrongdoer has been brought to justice. Mr Mudavadi said it was the government's intention to investigate all cases of corruption and to bring them to justice. But his priorities were to seal the loopholes that had been abused.

This was the aim of all his recent reforms, including the abolition of import licences, the merging of the official and market foreign exchange rates and the deregulation of the maize trade which was previously a state monopoly.

Burundi premier out of hiding

MS SYLVIE Kinigi, prime minister of Burundi, the East African country's top official since President Melchior Ndadaye was killed in a coup, emerged from 12 days of hiding at the French embassy yesterday to hold talks with army chiefs, Reuter reports from Bujumbura.

"She came out of ths embassy guarded by about 20 French soldiers," a witness said.

Ms Kinigi has asked the United Nations and the Organisation of African Unity to send in about 1,000 foreign troops to help protect her and government members. The army has rejected this.

The OAU rushed a special envoy to Burundi's capital, Bujumbura, for further talks with the army high command. The UN meanwhile appealed for $17m (£11.2m) to provide urgent food and shelter to 675,000 Burundi refugees who have fled to three neighbouring states.

The refugees, mostly women, children and elderly from the majority Hutu tribe, comprise more than 10 per cent of the country's population, says the UN High Commissioner for Refugees.

Warning over Somalia pullout

Ethiopia and Kenya said yesterday that a pullout of US troops from Somalia before a peace settlement could plunge the country back into anarchy, Reuter reports from Nairobi.

Kenya's President Daniel arap Moi and Ethiopia's President Meles Zenawi, ending two days of talks in Nairobi, called for an urgent African solution in Somalia.

Washington has 10,000 troops in the UN-led multinational force of about 30,000, sent to Somalia to disarm rival warlords. President Bill Clinton plans to pull troops ont by March.

Mr Robert Oakley, the US envoy in Mogadishu, began meeting clan leaders yesterday.

National party ahead in NZ poll

By Terry Hall in Wellington

NEW ZEALAND'S ruling National party appears increasingly likely to win Saturday's general election, aided by a surprising late run from the third-ranking Alliance, according to the last national opinion poll to be conducted before the election.

The Heylen polling organisation yesterday confirmed other recent polls which showed that the Alliance is attracting votes from Labour supporters, reducing its prospects of victory. Up to a fortnight ago, Labour and National were attracting similar levels of support at around 40 per cent.

Mr Mike Moore, the Labour leader, worried by the loss of support, this week switched the focus of his campaign to fight on two fronts: attacking both the government and the Alliance.

The Alliance is led by Mr Jim Anderton, a dissident former Labour MP who as party president orchestrated Labour's landslide victory in 1984 before resigning over its move to the right.

Mr Anderton stitched together an apparently unlikely consortium of opposition groups, including left-wing trade unionists, former Labour party members, the Green party, the Social Credit party, and a Maori opposition group Mana Matahaki led by Mr Matt Rata, a former Minister of Maori Affairs in a past Labour government. They are united in wanting to overturn the "monetarist" reform programmes followed since 1984 by both National and Labour parties in government.

The poll showed that National had increased its lead by one percentage point to 39 per cent. Labour was down two points to 32 per cent as support grew for the Alliance, especially in the key marginal Auckland seats which are expected to decide the outcome of the election. The Alliance was up one point to 17 per cent and New Zealand First, led by Mr Winston Peters, a dissident former Maori MP, was down one point to 9 per cent.

Mr Moore remained the preferred prime minister with 22 per cent support. Mr Anderton was up five points to 15 per cent to match the prime minister, Mr Jim Bolger, while Mr Peters had 14 per cent support.

The poll also showed that voters were moving towards favouring a continuation of the Westminster-style first-past-the-post electoral system ahead of a referendum being conducted along with the election. Support for that system had increased to 41 per cent, while that for the German mixed member proportional option was down slightly at 48 per cent. This time last year only 20 per cent of voters favoured the UK method while 72 per cent wanted the German system.

Malaysia: furious growth continues

Kieran Cooke looks at the south-east Asian nation's optimistic outlook

MALAYSIA'S economy continues to expand at rates western countries dream about.

On Friday Mr Anwar Ibrahim, the finance minister, presented the 1994 budget and forecast that Malaysia's gross domestic product was likely to grow by 8.2 per cent this year.

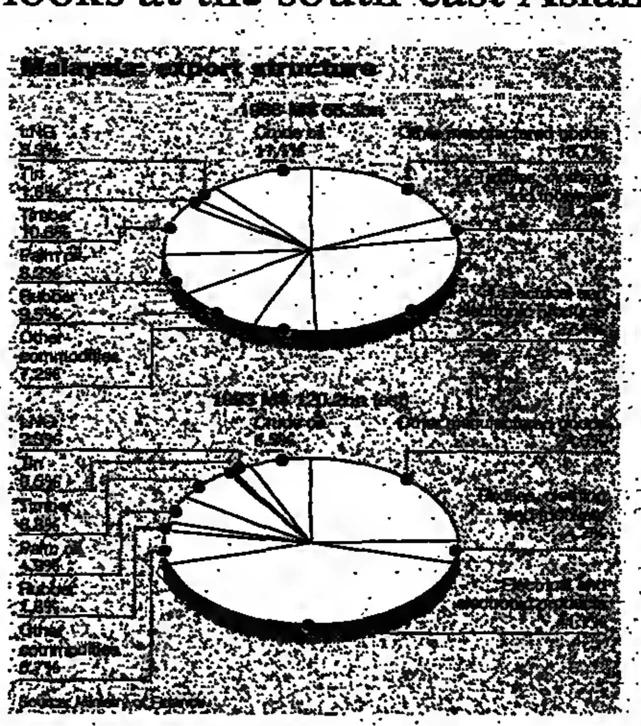
"With this growth, the Malaysian economy would have experienced growth rstes of 8 to 9 per cent for six successive years, an attainment which has never been achieved before," said Mr Anwar.

Officials say Malaysia is on course to achieva its aim of becoming a fully industrialised country by the year 2020. "Ws are moving into a period of sustainable economic development," said one official. "To achieve our goal we aim for 7 per cent growth in each of the next 27 years."

While some might doubt that such high growth can be maintained, Malaysia is optimistic.

The Kuala Lumpur stock market, which has risen more than 50 per cent since the beginning of the year, largely due to a massive influx of forsign funds, reached a new all-time high in the aftermath of Mr Anwar's budget speech.

Despite a recession in many of its markats, Malaysia's export earnings are expected to grow by 16 per cent to M$120bn (US$47bn) this year, compared with a 10 per cent rise in 1992.



While Malaysia still runs a substantial deficit in its services account, s strong export performance is expected to result in a surplus in the balance of payments current account, the first since 1989.

Strong economic growth has brought an improvement in national finances. Foreign exchange reserves rose from M$47.2bn at the end of 1992 to over M$60bn and the country's debt service ratio has gone down to 5.2 per cent from 5.7 per cent of gross exports.

Despite a rise of 13 per cent in development spending in the 1994 budget, the government says an increase in revenues due to strong economic growth means that Malaysia is expected to achieve a balanced budget for the first time.

Meanwhile, there is zero unemployment in most parts of the country, annual per capita incomes have risen in the last 12 months by 11 per cent to M$8,350 and the overall inflation rate has dropped to 3.7 per cent compared with over 5 per cent early last year.

But fast growth has resulted in infrastructure bottlenecks. As in other fast-emerging economies such as Thailand and Indonesia, Malaysia's roads are jammed with vehicles, ports are congested and its power industry lacks capacity.

"The present infrastructural constraints, especially in power and transport, have occurred too often and are now being addressed as a matter of urgency," said Mr Anwar in his budget speech. Critics say that by not tackling these problems sooner, the government has put at risk further economic growth.

The other main problem area is investment. Much of Malaysia's recent economic growth is due to the government's success in luring investments from overseas.

Attracted by the country's political stability and its relatively low wages, multinational companies have poured millions of dollars into electronics and other industries.

In 1990-91 foreign companies invested about M$17bn in Malaysia's manufacturing sector, representing well over half total investment. In the first seven months of this year foreign investments fell to M$2.4bn.

In part the fall-off is because of the tough times being endured by many cash-strapped foreign companies. But it is also because Malaysia is facing stiff competition for investment from countries such as China and Vietnam.

"Every country in this region is trying to offer the best tax package for investors and we cannot be left behind," says Mr Anwar. The 1994 budget cuts corporate tax by two percentage points to 32 per cent, with a further two-point reduction in 1995.

Under the present five-year plan (1991-95) the government's aim was to lessen dependence on foreign investment, with domestic concerns playing a greater role. But this has not happened, even though many Malaysian companies are cash-rich. Domestic investment fell by more than 50 per cent to M$2bn in the first seven months of this year. The 1994 budget includes a number of tax and other incentives to encourage more participation in the economy by domestic concerns.

Malaysia's development is also being affected by skills constraints.

A comprehensive overhaul of the education system is planned, but there are those who wonder whether the government has delayed too long in taking action.

"Short-term, Malaysia will continue to be a success story," said one local economist. "But we've really only made it to the first development plateau. It's going to be a lot tougher from now on."

NEWS: INTERNATIONAL

Labour faces setback in Jerusalem

By Julian Ozanne in Jerusalem

ISRAELIS voted across the country yesterday for new municipal councils amid signs that the Labour party of Mr Yitzhak Rabin, prime minister, was heading for an electoral setback in Jerusalem in the first test of public opinion since the signing of the Israeli-Palestinian peace agreement.

Elsewhere in the country, however, political analysts predicted Labour would marginally increase its control over local government, reducing the power of the right-wing Likud party which controls more councils than Labour.

In Jerusalem, centre-point of the battle between Labour and Likud, Mr Teddy Kollek, 83-year-old Labour mayor who has headed the Holy City's administration for 28 years, was last night facing the prospect of being defeated by his challenger, Mr Ehud Olmert.

Mr Olmert, a Likud member of parliament who opposes the peace accord, delivered a last-minute blow to Mr Kollek by cutting a deal for the support of the city's ultra-orthodox community. Under the deal an ultra-orthodox candidate, Mr Meir Porush, agreed to drop out of the race and swing his votes behind Mr Olmert.

Forecasters had said that to win re-election Mr Kollek would need a heavy turnout from the city's 80,000 Palestinians living in Israeli-occupied Arab east Jerusalem. But Israel radio said yesterday afternoon that turnout among Palestinian Jerusalemites was less than 1 per cent.

Mr Kollek, has been a standard-bearer of peaceful co-existence between Arabs and Jews. Mr Olmert has campaigned on an aggressive policy of Jewish settlement throughout Jerusalem including in neighbourhoods which under Mr Kollek were reserved for Palestinians. Palestinian politicians said yesterday a defeat for Mr Kollek would seriously set back talks between Palestinians and Israel on the future of the Holy City, due to begin within two years. But many Jewish voters think Mr Kollek is too old to lead the city again.

In Tel Aviv Mr Ronni Milo seemed likely to keep Israel's commercial capital under Likud leadership.

Mr Rabin has said he views the elections as a vote of confidence in the unfolding peace process.

Jerusalem's Mayor Teddy Kollek gesturing to reporters after casting his vote in yesterday's election Reuter

Palestinians suspend talks

By Julian Ozanne in Jerusalem

TALKS between Israeli and Palestinian peace negotiators broke down yesterday over the extent of Israeli troop withdrawal from the occupied Gaza Strip.

The Palestinian team, led by Mr Nabil Shaath, said it was suspending talks with Israel until next week and would consult Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, before resuming the talks on the details of implementing the Israeli-Palestinian peace accord.

The disagreement over the extent of Israel's military withdrawal from Gaza, due to begin in less than six weeks, is the first real snag in the talks which are supposed to conclude a protocol on Israeli withdrawal from Gaza and the West Bank area of Jericho by the middle of next month.

On Monday Israel presented maps and plans for the withdrawal and redeployment of its soldiers, which leaves control of several roads used by the 5,000 Jewish settlers in Gaza in Israeli hands. Substantial Israeli forces would also remain in the settlements, on the beaches and on the roads even after a withdrawal was supposed to have been completed by April.

There would be full Israeli control over the border crossing from Gaza into Egypt, and plans to ensure the protection of Israeli settlers moving through the Gaza area.

Palestinians say the proposals contravene the peace agreement. They are particularly upset at Israel's insistence that it maintain a military presence over roads leading into the settlements which pass through Palestinians population areas.

After yesterday's breakdown Palestinians said they would demand complete Israeli troop withdrawal.

Spanish in Palestinian venture

By Tom Burns in Madrid

BANESTO, the big Spanish commercial bank, said yesterday it had formed a $60m (£39.7m) joint venture with Israeli, Palestinian and Moroccan groups to fund development in Jericho and in the Gaza strip.

The venture, called Salam 2000, brings the Spanish bank together with Koor, the Israeli industrial and financial group, as well as Morocco's powerful Omnium Nord Africain (ONA) holding and with Palestinian investors lead by Mr Jawid Ghossein, the head of the Palestine National Fund, a para-governmental body that acts as the finance ministry of the Palestine Liberation Organisation.

Banesto, which did not disclose details of the shareholding in the joint venture, said Salam 2000's initial project would be to finance a cement factory in an unamed location. The bank said it intended to tap the US markets for a further $150m for more investments in the area.

It described the move as a pioneering investment in the Israeli-occupied territories where the Palestinians are being granted self-rule.

Earlier this year Banesto established close relations with JP Morgan, the US investment bank which is helping the Spanish group to raise its capital base through rights issues aimed at US institutions.

Jordan's wider choice narrows the debate

James Whittington on the kingdom's first multi-party election

SIX political heavyweights from Amman's Third District faced nearly two thousand voters in the ballroom of the Philadelphia Hotel and were quizzed for three hours on their campaigns leading up to Jordan's general election next Monday.

Questions ranged from women's rights to corruption, from Jordan's economic reform programme to its education system. The candidates included an ex-prime minister and three former ministers.

It was a rare display of political debate in a region not noted for freedom of expression. But it is unlikely to have changed the way members of the audience vote on November 8. Most have already made up their minds.

In Jordan's last elections in 1989, candidates ran as independents for the 80-member lower house of parliament. This time round more than 15 political parties and 555 candidates are officially registered to contest seats in the country's first multi-party elections since 1956.

The kingdom is festooned with posters, banners and campaign leaflets. And the 1.5m voters are seemingly spoilt for choice. But there is a distinct lack of enthusiasm.

Most people blame the controversial new election law – announced by King Hussein in August – which changed the rules to one person, one vote. Under the old system, the number of votes allowed equalled the number of seats in the district. Thus voters had two or three, and in one constituency, nine votes to play with.

This suited most candidates because if they lobbied hard enough and obtained the support of a majority of voters, even as the second or third choice, they stood a chance of being elected. This time round they have to be the first and only choice.

The effect has been a narrowing of political debate. The electoral change is purposely weighted in favour of those candidates with strong tribal affiliations and influential families, the bedrock of King Hussein's faithful. Their votes will be won out of obligation and loyalty, which take precedence over choice or preference in Jordanian society.

As a result, most candidates are campaigning to widen their private network of contacts on a limited range of local and personal issues. Manifestos generally consist of little more than vacuous slogans calling for national unity, Arab unity, a free Palestine, and democracy for all.

Campaigns are conducted in homes, over the telephone, and by buttering-up influential tribal and family figures.

Most of the parties have chosen to sell the attributes of individual candidates rather than the party itself. The expected losers are the new political parties which are largely based on woolly ideologies rather than useful tribal connections.

The exception is the Islamic Action Front (IAF), the political wing of the Moslem Brotherhood, which backed numerous candidates in the last election and won 21 of 80 parliamentary seats. This time the IAF has 36 candidates standing in 16 of 20 districts.

Its leaders say the new electoral system is weighted against them. Last week they met the prime minister to complain that their campaign was being targeted by the government. Until last weekend, when the High Court overruled the minister of the interior, they were banned from holding large-scale public rallies, and they say that their supporters in the civil service have been forbidden to campaign for the party.

The likely outcome is that the new parliament will be dominated by pro-government and tribal MPs. The expected decrease in the number of successful fundamentalist candidates would result in less opposition to government policies. And King Hussein would be able to continue with his agenda without worrying about a rowdy house of elected representatives.

$1.8bn issue launched to rebuild Beirut

By Mark Nicholson in Cairo

MIDDLE EASTERN investors were yesterday invited to subscribe to one of the region's biggest public share issues – and in effect to buy a stake in Lebanon's future – with the launch of Solidere, a $1.8bn (£1.2bn) company designed to rebuild Beirut's city centre.

Subscription will be open to Lebanese and other Arab nationals on a scale of priorities determined by the company. The offer, of 6.5m shares at $100 each, closes on January 10. "It is probably the largest private launch in the Middle East," Mr Nasr al-Shamaa, Solidere's general secretary, said yesterday.

A successful launch would provide the biggest private investment tranche towards the ambitious rebuilding plans of Mr Rafik Hariri, Lebanon's billionaire businessman turned prime minister. Solidere's city centre project is a pivot of Mr Hariri's 10-year, $13bn programme to revive Beirut as the cosmopolitan hub of trade, finance and recreation it was before the 17-year civil war erupted in 1975.

The government already has aid pledges of more than $1bn for specific rebuilding projects from the EC, UN, the Opec Fund, Arab institutions and European countries.

But the share offer will be a test of private sector commitment to Mr Hariri's ambitions and, in particular, of his conviction that wealthy expatriate Lebanese will channel wealth back into their country. Lebanese expatriates are estimated to hold $30bn to $40bn in assets outside the country.

The issue represents 35 per cent of Solidere's equity, the remainder of which will comprise 11.7m class A shares distributed among 150,000 Lebanese in exchange for their title to property on which Solidere will rebuild. A government committee valued this land in central Beirut at $1.17bn – the value of shares to be issued to former property owners.

Additional class B shares in Solidere – its name being the French acronym for Lebanese Company for Development and Reconstruction of Beirut Central District – will be offered to these former landowners, other Lebanese residents, government agencies, Lebanese expatriates and Arab citizens – in that order of priority.

Paribas of France Saudi American Bank, the Riyadh-based joint venture bank, will act as subscription agents for the sale outside Lebanon.

NEWS: WORLD TRADE

Malaysian carmaker to produce left-hand-drive models for continental market

Proton sets up European venture

By John Griffiths in London and Kieran Cooke in Kuala Lumpur

AN Anglo-Malaysian joint venture through which the Proton, Malaysia's national car, will be marketed in continental Europe from the middle of next year was formalised in Kuala Lumpur yesterday.

The venture, Proton Cars Europe, is between Proton itself, its Malaysian distributor, Edaran Otomobil Nasional, and Mr David Brown, who introduced Proton cars to the UK – which has subsequently become by far Proton's largest largest export market.

Mr Brown will have a 55 per cent stake, Proton 25 and Edaran 20. The initial sales target for the first year of operation is 8,000 units, although the long-term hope is for much larger sales as Proton's production capacity expands.

Proton has about 70 per cent of the Malaysian car market and is now making an aggressive sales push overseas. It has outline plans to set up an assembly plant in Vietnam and is considering an overseas manufacturing facility, possibly in Chile. Capacity at the plant, 20 miles outside Kuala Lumpur, is being increased to 150,000 units a year from the current 120,000 and the 80,000 with which the car project began in the mid-1980s.

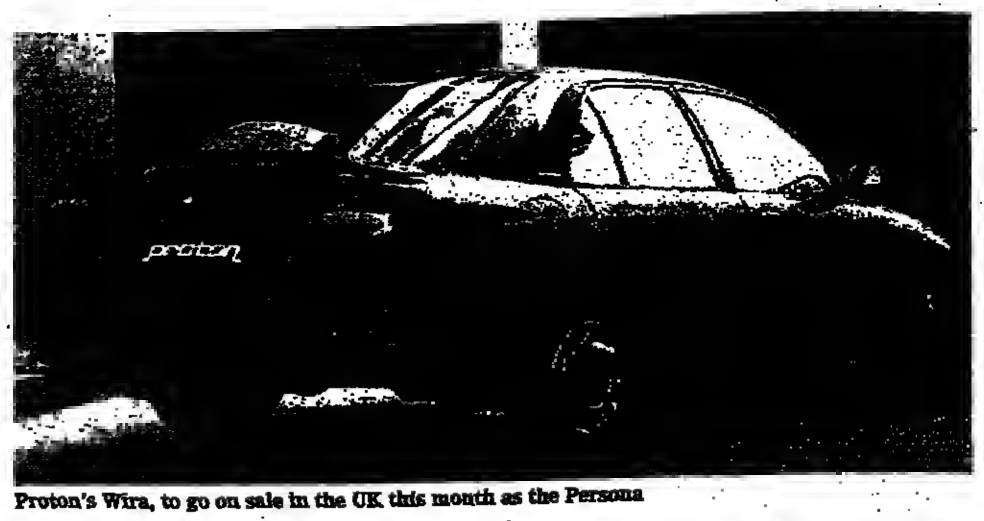
This is to cope with both the introduction of new models and the start of manufacture of left-hand-drive vehicles for export to Europe from early next year.

Currently Perusahaan Otomobil Nasional Bhd, the Proton's manufacturer, makes only right-hand-drive cars. Malaysians drive on the left, reflecting the country's former colonial status, and exports hitherto have been confined to right-hand-drive markets.

The UK is by far the biggest export market, with just under 15,000 sold in 1992 and 16,000 projected for the current year. Another 2,000 annually have been sold in other right-hand-drive markets such as New Zealand, Australia, Bangladesh, Sri Lanka and other Commonwealth markets.

Proton is itself a joint venture company in which Japan's Mitsubishi Corp has a 17 per cent stake.

Proton Cars Europe will not, however, act as a conventional importer and distributor in continental Europe in the same way as Proton Cars operates in the UK. Instead, its role will be to research and recommend to Proton a network of national distributors for each European country, and to co-ordinate their activities after they have been appointed.



Proton's Wira, to go on sale in the UK this month as the Persona

Beijing distribution centre for Yaohan

By Emiko Terazono in Tokyo

YAOHAN, a Japanese retailing group, plans to set up a big computerised distribution centre in Beijing with the Chinese government, to be completed in 1995.

Mr Kazuo Wada, Yaohan's chairman, who moved the group's headquarters to Hong Kong in 1990, said the plan was part of his strategy of establishing production, distribution and retail networks throughout China.

Yaohan, which has 432 stores worldwide, became the first foreign retailer to set up shop in China, opening department stores in Shenzhen and Beijing in 1991. It is also building a shopping centre with floor space of 108,000 sq m in Pudong, the special economic zone near Shanghai, to completed in 1995.

"China lacks proper wholesaling and distributing systems. It takes two to three months to replace a product after it has been sold," said Mr Wada. He plans to set up distribution centres in 10 provinces, and wants to open 1,000 supermarkets in China by the year 2010.

Mr Wada reckons that the true purchasing ability of Chinese living in large cities is not reflected in the official statistics. Although the national average annual income is considered to be about $350 (£232) per person, "In Shanghai it's about $2,000 and in Shenzhen about $3,000," he said.

● Canon, the camera and office equipment maker, will shift production of low-priced printers and facsimile machines to China to cope with the yen's rise against the dollar. The company plans to spend $80m on a new production plant near its compact camera manufacturing subsidiary in Guangdong.

Rockwell in Chinese car parts agreement

By John Griffiths

ROCKWELL International, the US automotive-to-aerospace multinational, is setting up a joint venture in China to develop and make a range of car body components for the fast-expanding Chinese vehicle industry.

The venture, in which Rockwell will have a majority stake, is with Zhenjiang General Equipment Factory, based about 200 miles from Shanghai. It will operate under the name of Rockwell Chassis and Body System Zhenjiang Company.

Under the terms of the agreement, Rockwell will supply technology, processing equipment, systems and management expertise – as well as an undisclosed amount of investment capital – for the production of window regulators, door latches, handbrakes and similar products.

Rockwell has been active in China since the 1970s. "The venture reflects Rockwell's overall strategy for investment in China, where there is a huge potential for passenger car growth," according to Mr Donald Beall, its chairman and chief executive.

Rockwell already exports to China heavy-duty axles and brakes and components for off-highway construction equipment, avionics, telecommunications and automation equipment and printing presses.

Several of its existing motor industry customers, including Peugeot of France, are either starting up of expanding car production in China.

Israel quick to establish trade relations

By Julian Ozanne in Jerusalem

ISRAEL and China are moving swiftly to establish trade and business ties, following the visit by Mr Yitzhak Rabin, Israel's prime minister, to China last month.

Bank Hapoalim, Israel's largest banking group, yesterday said it had established correspondent banking relations with China during a high-level Hapoalim mission to Beijing. The bank said the relations would help Israeli and foreign clients of Hapoalim wishing to invest in and trade with China.

Bank Hapoalim's announcement followed the signing in Jerusalem of a memorandum on agricultural co-operation between Israel and China. The memorandum, signed by Mr Liu Jiang, China's agriculture minister, and his Israeli counterpart, Mr Yacov Tzur, provides for the establishment of a standing Chinese-Israeli agricultural committee, exchange of experts and information, the strengthening of a joint training programme and the establishment of a joint Israeli-Chinese model farm near Beijing where Israeli agricultural experts can demonstrate Israeli technology to Chinese farmers.

During Mr Jiang's eight-day visit to Israel, which ends tomorrow, a $1.5m deal was also concluded between Plastro G'vat of Israel and Beijing Plastic to sell Israeli irrigation equipment to China.

Chinese technicians are already learning about the irrigation technology at Kibbutz G'vat.

Mr Jiang said Israeli irrigation equipment and other agricultural technology would be especially helpful in western China, which has a similar climate to Israel's. "Your irrigation systems can contribute a lot to advance the co-operation between the two countries," he said.

Israeli officials said strengthening economic ties between the two countries was a result of the Israeli-Palestinian peace agreement. China has always supported the Palestinians and held up ties despite establishing diplomatic relations with Israel two years ago.

Mr Dan Proper, president of the Israeli Manufacturers Association, who accompanied Mr Rabin to China last month, said yesterday further trade deals and joint ventures were in the pipeline, especially in advanced agricultural technology and irrigation, communications, telephones and electronics, food conservation, and chemicals such as potash.

Dubai plans Arabic TV service

By Raymond Snoddy

EMIRATES Dubai Television plans to launch next month what it says is the world's first 24-hour Arabic satellite television service.

EDTV, already available in the Middle East, hopes to reach 14m more Arabs living in Europe and North and Central America.

The service will be carried on the Eutelsat II satellite in Europe and on Galaxy satellite on the other side of the Atlantic, where it will be available from Canada to Venezuela.

The exporting of a television service from Dubai is the latest sign of the growing internationalising of the television market.

Next spring BBC World Service Television is to launch a news service in Arabic for the Middle East. EDTV plans a December 6 launch.

EDTV, which will use programmes, presenters, and technical staff drawn from all over the Middle East, plans to broadcast 70 per cent in Arabic and 30 per cent in English.

Japan unhappy over rice tariffs

Japan told Gatt director general Peter Sutherland yesterday Tokyo would find it "politically difficult" to accept replacing its rice import ban with tariffs under a Uruguay Round deal, a world trade body spokesman said, Reuter reports from Geneva.

At a one-hour meeting in Geneva, Farm Minister Eijiro Hata sought a special exemption for Japan, Mr Sutherland urged Japan to accept comprehensive import tarification.

Vision of unity for embattled central America

Edward Orlebar reports on a commitment to freer trade and integration among six poor republics

THE SIX small, poor republics of central America, still suffering the fallout from more than a decade of ruinous civil wars, huge foreign debts, and injudicious economic policies, made an important commitment last week to economic integration.

The six presidents signed an agreement on Friday which will set them on course for free trade within the area and lay the foundations for deeper political harmonisation – for those that want it.

It reflects the view of politicians and the business community that greater economic integration is essential if central America's 30m inhabitants are to avoid being swamped economically by extra-regional competitors.

While short on binding measures or concrete commitments, the agreement is an important statement of intent to strengthen regional integration in the new realities of central America.

The deal comes in the form of a protocol to the original 1960 General Treaty on Central American Economic Integration which created the Central American Common Market. The new model of integration with a common external tariff of 20 per cent replaces an import substitution one based on high external tariffs. With the exception of Panama, all the countries have already adopted this new regime.

The presidents also undertook to speed up the removal of the last of the internal non-tariff barriers that have been erected over the past decade or so.

Objections by Costa Rica to anything beyond merely trade initiatives forced the core group of four – Guatemala, Honduras, El Salvador and Nicaragua (Panama is something of a special case) – to make "voluntary and gradual" the protocol's implementation.

Panama has only recently thrown its hat in with central America and is expected to move more slowly on integration.

Mr Rafael Rodriguez, the secretary general of Sieca, the technical body which has drafted the nuts and bolts of the agreement, admitted that he would have liked deadlines for the commitments in the protocol, but denied that its voluntary nature would diminish commitment.

"It is not a strait-jacket," he said. "There is an element of flexibility." While the Costa Rican government insisted it supported free trade in the region, it would not accept a customs union, the free movement of labour or a commitment to a single currency.

"If we allowed free movement of labour, a million Nicaraguans would cross over our northern border to seek work," Mr Roberto Rojas, the Costa Rican trade minister said in an interview recently.

Nor did Costa Rica, which receives 50 per cent of its fiscal revenue from import duties, wish to lose control over its collection, implied by a customs union, where any central American port would act as a point of entry to the region.

During the 1980s, civil wars in El Salvador, Guatemala, and Nicaragua, trade barriers, and mutual hostility between Nicaragua's left-wing Sandinistas and the region's right-wing military-dominated governments contributed to a drop in intra-regional trade from a peak of $1.1bn in 1980 to $450m in 1986. This year trade flows are expected to pass $1bn.

But the new vision of integration is not just about trade. Recently El Salvador, Nicaragua, Honduras, and Guatemala, abolished passport controls for their citizens, and plans are well advanced on connecting stock markets and allowing banks, brokerage houses and other financial institutions to operate in each other's country.

The region's governments, which by happy coincidence are at the moment cut more or less from the same ideological cloth, are endeavouring to co-ordinate macro-economic policy, adopting realistic exchange rates and the tight fiscal policies recommended by the international financial institutions.

Greater co-ordination on trade issues has already born some fruit. The five central American nations were the first to get together behind a plan to withhold 20 per cent of coffee exports to push up world prices, which came into effect on October 1.

Central America has also been told repeatedly by the US that its chances of reaching a free trade agreement would be greatly increased if it could negotiate en bloc, despite Costa Rica's efforts to cut its own deal.

Similarly the bloc has already negotiated so-called asymmetrical agreements which favour central America with Colombia, Venezuela and Mexico, and talks are under way with the Caribbean community.

But while the grand conflicts of the 1980s are nominally over, or have diminished to the occasional combat, the region's impoverishment continues to fuel unrest, which could undermine integration.

"If we can solve these problems, we can make a quantum leap," says Mr Gert Rosenthal, the Guatemalan secretary general of the Santiago-based Economic Commission for Latin America and the Caribbean. "If central America is to compete in the world economy it must integrate its economies."

US bid to win Belgian reprocessing deal alarms Dounreay

By James Buxton in Edinburgh and George Graham in Washington

MOVES by the US government to persuade Belgium not to send spent nuclear fuel for reprocessing in Britain are causing alarm at the UK Atomic Energy Authority's plant at Dounreay in Caithness, which sees the US action as a serious threat to its reprocessing operation.

Dounreay has a contract worth about £3m with a Belgian research nuclear reactor to take 144 rods of spent fuel and reprocess them, separating uranium from other waste and returning both uranium and waste to Belgium.

But the US Department of Energy has offered the Belgian authorities an advantageous price for taking the spent fuel and storing it permanently at Savannah River, South Carolina. It is believed to have offered to indemnify against breach of contract.

In order to allow the speedy import of the spent fuel into the US, the US Energy Department has waived the rule requiring an environmental review to be carried out before it can be imported.

The US believes it has an obligation to take back the fuel which originated in the US, and sees the move as reducing the trade in highly enriched uranium which could be used in nuclear weapons.

The Dounreay plant, where the experimental fast breeder reactor is due to close next year, fears that the US could make similar moves with other consignments, wiping out Dounreay's reprocessing business.

The Studiekentrum voor Kernenergie which operates the BR2 reactor at Mol in Belgium is close to deciding whether to accept the US offer, which is understood to involve a price of about $4,000 per rod. Dounreay believes the price involves a heavy subsidy and compares it to its own reprocessing cost of $30,000.

The US Energy Department's decision to waive the environmental review in order to accept the uranium signals the acceleration of a return to its earlier policy of taking back spent nuclear fuel from European research reactors.

The aim of the policy was to wean foreign reactors away from highly enriched uranium supplied by the US. But the US stopped taking back spent fuel following a legal challenge in 1988. In July, however, the Energy Department bowed to a State Department warning that continuing to refuse the shipments could "undermine fifteen years of intensive US non-proliferation efforts."

"We are committed to taking this fuel back consistent with our obligation to our foreign partners and within the requirements of environmental laws," Mr Thomas Grumbly, an assistant energy secretary, said.

For future shipments from reactors in countries including Germany, the Netherlands and Sweden, the Energy Department is expected to undertake a normal review of the environmental impact. US officials are concerned that under the current US-Euratom agreement they would have no control over the transfer of the reprocessed fuel within the EC, weakening the effect of the US's ban on new exports of highly enriched uranium.

Unionists MPs seek bilateral peace plan

By David Owen

THE ULSTER Unionists could be ready to take part in talks on Mr John Major's proposed peace initiative for the province as long as London does not insist on a round-table format for the discussions.

Senior UUP MPs indicated they would discuss whatever proposals ministers put forward in bilateral meetings.

Mr James Molyneaux, the UUP leader, was still declining to comment publicly on the British prime minister's initiative, but ministers have drawn comfort from his reticence.

Sir Patrick Mayhew, the Northern Ireland secretary, appeared willing, in earlier comments, to go along with a bilateral approach – at least in the early stages of new talks.

But he seemed to view this as a preliminary to a resumption of round-table discussions. Bilateral talks, he said, could be a way to "bank what is bankable from last time and to see what ultimately is a really serious obstacle. Then may be the time to sit around the table".

A larger barrier to fresh talks may come from the Democratic Unionists, whose leader, Mr Ian Paisley, yesterday insisted that the Social Democratic and Labour Party leader Mr John Hume must first end his talks with Mr Gerry Adams of Sinn Féin, the political wing of the IRA.

"Mr Hume has to say that his talks with Gerry Adams are over," Mr Paisley said. "And until Dublin deals with Articles 2 and 3 [of its constitution which covers its claim to the North], there is no point in sitting down with them."

Mr Paisley said the DUP was waiting for Mr Major's response to its proposals for breaking the "logjam". He said these dealt with both the cross-border relationship and internal institutional questions.

According to Mr John Taylor, the UUP's Europe spokesman, the British government should try to seize the initiative by discussing its plan in bilateral meetings with the province's four constitutional parties and then moving ahead to implement it.

Mr Taylor believes the plan's main elements sbonld be the creatinn of a Northern Ireland assemhly to administer laws that would continne to be made at Westminster and the formulation of "some new basis of co-operation" between Belfast and Dublin.

If these structures could be made to work effectively, he would expect the effectiveness of the 1985 Anglo-Irisb agreement – which the UUP opposes for giving a foreign country influence over part of the UK – to wither. The UUP's inflnence st Westminster has been strengthened hy the precariousness of Mr Major's 17-strong Commons majority, which has made him reliant on the votes of their nine MPs.

Bank predicts slight rise in UK inflation

By Peter Norman, Economics Editor

THE BANK of England warned yesterday that inflation will rise in the months ahead, with a "slight possibility" that it will briefly exceed the government's 1 to 4 per cent target range in the first half of 1994.

The forecast, contained in the Bank's latest quarterly Inflation Report, helps explain recent statements by Mr Eddie George, the Bank governor, and Mr Kenneth Clarke, the chancellor of the exchequer, dampening expectations of an early cut in bank base rates from 6 per cent.

But the report also made clear that interest rates will not have to rise to offset any short term rise in inflation next year, provided the higher price level does not push wages higher. This is because the expected acceleration of inflation in 1994 will largely reflect the impact of higher indirect taxes and changes to local authority taxes, announced in the March Budget.

Indeed the Bank appeared to give approval to further tax increases in the forthcoming November 30 Budget. It urged the government to take action that would steadily reduce the Budget deficit.

This, it said, was crucial to sustaining the credibility of the government's anti-inflationary policies.

"It needs to be understood," it said, "that one-off boosts to the level of prices, for instance, from higher indirect taxes, do not mean any slackening of anti-inflationary policy, and should not be regarded as permanent increases in the underlying rate of inflation."

Mr George and Mr Clarke will meet today for confidential discussions in London on the present stance of British monetary policy and the likely implications of the Budget on November 30 for Bank of England policy.

In its report yesterday, the Bank noted that most year-on-year measures of 12 month inflation had risen since its last report in August.

"Headline" retail prices inflation rose to 1.8 per cent in September from 1.2 per cent in June while the underlying rate, which excludes mortgage interest payments and is targeted by the government, advanced to 3.3 per cent from 2.8 per cent.

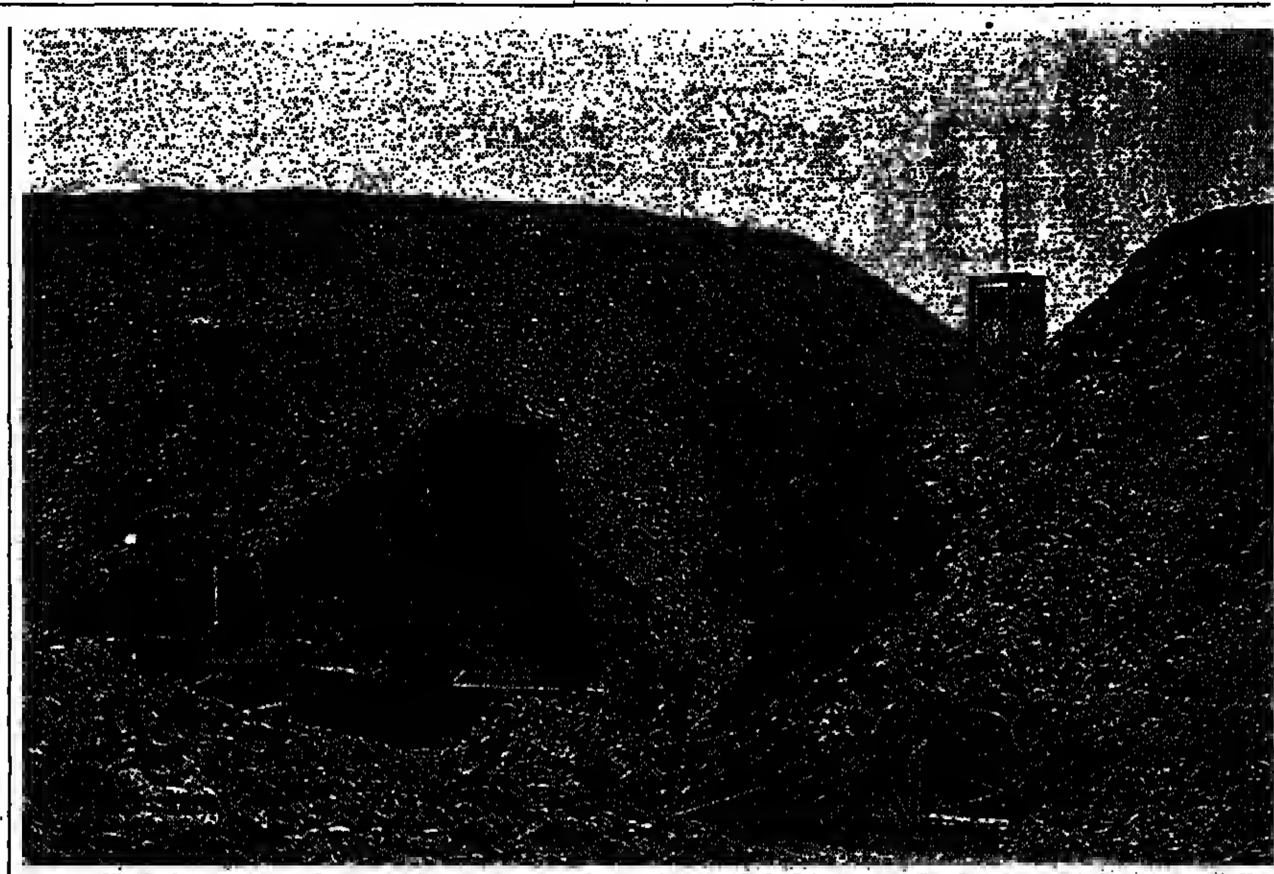
But it said that slack in the British economy, together with moderate growth in demand and slow growth in broad money and credit pointed to the possibility of further reducing inflation over the medium term with growth of output picking up.

Excluding tax changes, the Bank expects that inflation will start falling early next year and could reach a level close to the middle of the government's target range in 1995.

The Bank's report provided no indication of whether it and the Treasury would lower interest rates in the event of a substantial tightening of fiscal policy in the Budget.

But the report makes clear that the Bank is satisfied with the present level of bank base rates in current circumstances. Indeed, its central forecast that sees underlying inflation at between 3 per cent and 4 per cent in early 1995 suggests that the Bank's top management considers that the UK's record in combatting inflation is one of "so far so good" rather than a resounding success.

Lex, Page 16



NEW MODEL: One of the world's most famous car factories, at Cowley, Oxford is being redeveloped (above). Rover is spending £200m on consolidating the sprawling plant on one site. William Morris, the pioneer manufacturer, was born at Cowley St John, and produced the 'Cowley' in 1915. The factory was on the site of an old military academy where Morris' father had gone to school

EC pollution proposals criticised

By David Lascelles and Bronwen Maddox

EC PROPOSALS to impose stricter liability on businesses to pay for pollntion damage were criticisied hy British employers yesterday.

The Confederation of British industry said the proposals were "ill-founded" and would result in contaminated land being left derelict.

The CBI attack, contained in a 32-page report on environmental liability, singled out an EC discussion document issued last May which called for harmonisation of community environmental law because pollution could not be contained within geographical borders.

The document argued for strict liability that would make owners rasponsible for cleaning up contaminated land regardless of whether they actually caused the damage.

Mr Tim Yeo, the environment minister, yesterday supported the CBI stance. "The EC role needs to be carefully regulated. I don't believe, on grounds of subsidiarity, that there should be harmonisation of EC policy," he said.

Both the CBI and Mr Yeo also oppose suggestions that environmental groups should have the right to take polluters to court. Mr Yeo said: "It is important to limit the number of people who can bring civil action for loss. That would be a retrograde step."

The CBI said that the government and the EC should rule out any moves to create retrospective liability for pollution damage, or widen liability. Where the polluter could not be found, the clean-up would have to be paid for by a partnership between the public and private sectors, making use of regeneration grants.

The CBI report was sharply criticised by environmental groups. Friends of the Earth said the CBI was "expecting the public to pay for the clean up of its members' industrial pollution legacy. The public has the right to expect the government to ensure that the cost of cleaning up is borne by the polluter, not the polluted."

The EC Commission and the European parliament will be holding joint hearings in Brussels today on the discussion document when indnstry groups will give evidence.

Mr Humphrey Norrington, the vice-chairman of Barclays Bank, will be among those testifying. Although he will be lobbying on behalf of EC banks, the UK banking industry has been leading opposition to the EC proposals.

Bankers fear that they would be made liable for pollntion costs incurred by their borrowers.

Last night Mr Norrington said: "Banks are keen to help their customers be good environmental citizens. But if the EC forces us into a straitjacket the result may be the exact opposite."

Major signals tax increases in Budget

By Philip Stephens, Political Editor

MR JOHN MAJOR yesterday gave the clearest signal yet that his government is planning further tax increases in the November 30 Budget.

Despite a cabinet agreement tn freeze public spending in real terms for the next three years, Mr Major indicated tough control of spending and resumed economic growth would not do enough to curb government borrowing.

His comments coincided with signs of an upsurge of concern among rank-and-file MPs about tbe impact of tax increases already in the pipeline following the Marcb budget.

Under the plans announced by Mr Norman Lamont, the former chancellor of the exchequer, the tax burden is already set to rise hy more than £6bn next year and by more than £10bn in 1995/96.

But Mr Major told the Commons that the government needed to make a "steady and sustained" move to reduce borrowing. That could be dona in several ways. Controlling public expenditure was one and growth would make a contribution. But in a clear reference to tax increases, the prime minister then odded "other matters" would also contribute.

Ministers and Conservative MPs who had been listening to Mr Major were unconvinced by Downing Street's argument that the prime minister was refering to plans already announced by Mr Lamont.

Dockyard workforce could be cut by 40%

By James Buxton, Scottish Correspondent

THE LABOUR FORCE st the Rosyth naval dockyard in Scotland could fall by nearly 40 per cent to 2,200 by the year 2005, employees were told yesterday.

Staff were warned that their present pay and conditions will have to be renegotiated as the yard reduces costs and is fully privatised.

Babcock Thorn, which operates the dockyard on the Firth of Forth, yesterday held ths first of a series of meetings to inform all 3,600 employees of the yard's prospects.

This follows the government's decistion in June to award the contract for servicing Trident snhmarines to Devonport, whila allocating Rosyth a workload of surface ships which will taper after 2000 and end in 2005.

Early next year the Ministry of Defence will seek tenders for the full privatisation of the two naval dockyards. Mr Allan Smith, Babcock Thorn's managing director, said Babcock intended to bid fnr Rosyth without Thorn EMI and was negotiating to take over Thorn's 35 per cent stake.

The workforce was told submarine work would continue to 1996 and would be followed by the refitting of two aircraft carriers as well as frigates and Type 42 destroyers. By 2000 the workforce was likely to fall to 2,800.

After 2000 Rosyth will have to compete for most of its naval workload and the labour force would drop to 2,200. The exact size depended on its success in improving efficiency and reducing costs.

The workforce was told that Rosyth's wage, salary and overtime costs were the highest in the ship refitting industry, and the company's contribution to the pension fund was twice that of most of its competitors.

London asks Brussels for £630m aid for Merseyside

By Ian Hamilton Fazey, Northern Correspondent

THE UK GOVERNMENT yesterday asked the European Community for about £630m over six years to help reverse the decline of Merseyside's economy.

It proposes to match the sum with contributions from public and private sectors, making £2.12bn for local economic reconstruction by the end of the century.

The money, which has to be finally negotiated over the next six months, would go to Merseyside under its new Objective 1 status, which gives the poorest and most lagging areas of the EC special help to catch up.

In the negotiations, the EC is likely to press for the UK public and private sectors to give more than 50 per cent of the £2.12bn.

The strategy document asking for the money suggests complete reversal of Merseyside's decline could be impossible.

Latest government figures show Merseyside's growth would have to be 5.4 per cent a year above the EC's average to reach the EC's average level of gross domestic product per head of population by the end of the century.

No specific projects are suggested at this stage. Rather, nearly 47 per cent of total spending would go on human resources, principally training, to sttack the problem of a large block of unskilled male labour.

It would build on research traditions in its two universities and among existing companies, clear up dereliction and pollution, conserve agricultural areas around the conurbation's periphery and develop Merseyside's transport and port infrastructure to revive it as a "major gateway" between Europe and the rest of the world.

● The Northern Ireland Office is to prioritise human resource development in its use of EC structural funds over the next six years, and is to emphasise the importance of cross-border links in the development of transport and energy infrastructure. Northern Ireland enjoys "Objective One" status for the disbursment of EC structural funds, which will entitle it to over 50 per cent, or 1.23bn ECU, of the 2.36bn ECU allocated to the UK for 1994-99.

British Coal to announce mine closure proposals

By Michael Smith

BRITISH COAL, the state mining corporation, will today begin its long-awaited move to cut back the UK coal industry by announcing closure plans for Calverton colliery in Nottinghamshire.

The expected announcement follows months of speculation that British Coal will close all 12 pits reprieved hy the government last Marcb following a public outcry over their proposed closure.

In the five months to the end of British Coal's financial year in March, the company is likely to close at least a dozen pits.

In meetings with union leaders in Nottinghamshire yesterday, British Coal indicated some of the 12 reprieved mines could survive if they out-performed the 19 pits to remain open.

They underlined the extent of the industry's problems by disclosing that coal burned in Britain's power statinns is likely to be 7m tonnes lower than expected at 57m tonnes this year.

Coal consumption has fallen by 20 per cent compared witb last year as nuclear output has risen 12 per cent, equivalent to 3m tonnes of coal, and gas turbine stations have taken sway the market for 4m tonnes of coal.

British Coal said it was necessary to review further the Calvarton colliery which employs 640 men and has made losses nf £6.3m this year.

At least one more pit closure is likely oext week following Britisb Coal's decision to convene a meeting next Tuesday to discuss Yorkshire region collieries.

Further meetings called for this month have raised concerns over the future of collieries such as Silverdale in Staffordshire, and Wearmouth in the north east.

Mr Neal Greatrex, general secretary of the Union of Democratic Mineworkers which represents most Nottinghamshire miners, criticised British Coal's tactics because many pit workers in the region are likely to face a three month wait before the corporation decides their future.

More than 600 jobs are to be created at the former Cortonwood colliery near Barnsley, Snnth Yorkshire, nnrtb England. Tunstall Group, the electronics eqnipment company, will build an £11m components factory on the site where almost 10 years ago the pit closnre sparked the nationsl miners' strike. Finance inclndes a government grant of £2.5m and a five-year European Coal and Steel Community loan.

Contracts awarded for Tube project

By Andrew Baxter

LONDON Undargronnd yesterday awarded a further £400m of contracts for construction of the £1.9bn Jubilee Line extension, bringing to £800m the total value of contracts awarded in the past five days.

Further contracts are expected in the next week following government approval for the project.

Overseas companies are expected to win 40 per cent of civil contracts and about 20 per cent of electrical and mechanical orders. Mr Hugh Doherty, project director, said: "Even when contracts are with overseas firms, it is important to realise that the vast majority of the money – in excess of 90 per cent – will still be spent in the UK, contributing to the national economy."

The contracts awarded yesterday cover everything from tunnelling, to ticket machines.

These inclnde two station and tunnelling contracts worth s total of £130m for the Aoki-Soletanche joint vanture, which includes Japan's Aoki Corporation.

On the equipment side, GPT, the UK joint venture between GEC and Siemens, has won a £60m communications contract, while German-owned O&K Escalators will supply lifts and escalators worth more than £60m.

A £50m contract for power, cabling and conductor rail was won by GEC Alsthom, tbe Anglo-French engineering group which last week clinched a £250m deal to supply 59 six-car train sets for the project. The orders are a boost for the Anglo-French group following last months's defeat in the race to supply equipment to British Rail under a special £150m leasing facility granted by the government.

Milk quotas face UK bid for abolition

MRS GILLIAN Shepherd, agriculture secretary, yesterday pledged to fight for tha eventual abolition of EC milk production quotas, which prevent the UK from being more than 85 per cent self-sufficient, writes Alison Maitland.

Addressing the Dairy Trade Federation, Mrs Shepherd said she would press member states to allow milk quotas to be transferred between milk producers in different countries.

"It would be logical and sensible to allow quota to migrate to those parts of the Community, like the UK, where milk can be produced most efficiently," she said.

Meanwhile, Mr Jim McMichael-Phillips, president of the federation, accused Milk Marque, successor to the Milk Marketing Board compulsory purchasing scheme, of awarding itself an unfair advantage against competing buyers in the run-up to the deregulated market next April.

Britain in brief

VAT on fuel compensation trimmed back

Tha government's compensation package to mitigate the effect of Value Added Tax (VAT) on fuel is likely to be "substantially less" than £500m, significantly less than expected, according to government officials.

It had widely been assumed that Mr Peter Lilley, social security secretary, had won a bigger package from the Treasury in order to low income families.

However, Mr Kenneth Clarke, chancellor of the exchequer, has decided to limit the amount available to sweeten the effect of the controversial tax, believing that it is sufficient to limit any potential Tory backbench rebellion.

The compensation leaves little, if anything, for those who fail to qualify for income support, dubbed the "nearly poor" hy the chancellor, because their savings or incomes are slightly too high.

The decision to limit the amount of compensation for VAT on fuel is expected to be finalised at tomorrow's session of the cabinet, which will confirm the level of public spend in Mr Clarke's unified budget on November 30.

G7 economies 'discouraging'

Economic davalopments among Britain's G7 trading partners offer "little encouragement" to UK policy makers, with growth in the US, Japan, Germany, France, Italy and Canada likely to average only 1 per cent this year, the Bank of England says. While the Bank's quarterly bulletin sees little prospect of recovery stalling in the US, it warned that there are few signs of an upturn in Germany or Japan.

Money supply figures increase

Money supply figures from the Bank of England added to evidence that consumer spending is the driving force behind the recovery.

Cash in circulation, or M0, rose s provisional, seasonally adjusted 5.4 per cent in the year to October, compared with 5.3 per cent in the year to September. This was the sixth consecutive monthly rise in the annual rate. Growth in narrow money tends to reflect a pick-up in retail sales. The rise in M0 in every month since May – when it was 3.5 per cent – has coincided with buoyant retail activity.

Reserves rise by $507m

The UK's official gold and foreign currency reserves rose by $507m last month, taking reserves at the end of October to $43,551m, compared with $43,044m at the end of September. The underlying increase in reserves was $32m.

The underlying change excludes a number of factors included in the total change, including tha proceeds from the quarterly tender of 3-year Ecu Treasury notes, proceeds from this month's tender of UK Ecu Treasury bills and maturing UK Ecu treasury bills.

Receiverships up slightly

Tha number of companies entering receivarship or administration rose slightly to 240 during October, according to figures from tha official London and Edinburgh Gazettes analysed hy accountants Touche Ross. The figure reflected a continued decline in the number of company failures over the past six months, although it was up from a one-off low of 184 during September.

Fall likely in apprentices

Numbers of spprentices recruited by the engineering industry are likely to fall by 24 per cent this year, according to the Sheffield Association of the Engineering Employers' Federation. The association, which covers the industry in South Yorkshire and the north Midlands, says its annual recruitment and skills survey shows numbers of craft apprenticeships have dropped. However, only 5 per cent of companies reported serious skill shortages.

BUSINESS AND THE ENVIRONMENT

A Japanese group's new printer may establish a trend, predicts **Peter Knight**

A rebel among the copycats

Buy a laser printer and help save the world. Strange as it may seem, newspaper readers throughout Europe are being urged to do just that in a series of advertisements placed by Kyocera, the Japanese company with a turnover of Y420bn (£2.6bn). Kyocera's core business is ceramics but it also makes a laser printer which it claims is environmentally more sound than those of its competitors.

The claims have caused scepticism among environmental campaigners and the electronics industry. The campaigners cite Japan's poor environmental record, especially its efforts to continue whaling and its high consumption of tropical timber. The trade thinks it is commercial suicide to try to sell products on their environmental credibility alone.

But Kyocera's printer, called the Ecosys, looks set to be in the vanguard of a wave of greener products from Japan, such as industrial environmental protection products and energy-saving davices. Consumer products are expected soon.

"Japanese industry is particularly sensitive to environmental issues because Japan has suffered from bad pollution in the past. The Minamata mercury poisoning is just one example," says Yasuo Nishiguchi, Kyocera's senior managing director. "I can understand that Japan is perceived as different because of the whaling. But the Japanese attitude is changing."

It was Nishiguchi's decision to promote the Ecosys on environmental performance. He admits that some of his European distributors, especially those in Spain and Italy, think he is wrong.

"I was concerned in April 1992 when we started the promotion because everyone was saying that the printer's environmental performance was not enough to win market share. But our message to the market is now accepted and we have met our sales targets."

Kyocera is a minnow in the worldwide office printer market, which is dominated by Hewlett-Packard, with Canon providing the core technology for most printers. The Ecosya is comparatively slower, more expensive and does not produce the same density of print as the latest models from leading competitors.

Kyocera decided that if it was to compete, it needed something to differentiate its product from the rest. Ecosys's design provided the unique selling point. Conventional printers use a replaceable cartridge that contains the toner and the printing drum. The whole cartridge is thrown away when the toner runs out.

While this gives high-quality printing, the throw-away design is both profligate and environmentally unacceptable: Canon and H-P have responded with recycling initiatives, but these have been largely ineffective because dealers are not obligated to take back used cartridges.

H-P is about to launch "re-engineered" cartridges and a take-back scheme for old printers, but its distributors are under no obligation to accept used products from customers.

Kyocera's design has a longer-lasting drum (using its ceramics technology) which is separate from the toner cartridge. The only part of the machine that has to be replaced regularly is the toner.

While marginally more expensive to buy, Kyocera claims the Ecosys is more economical to run. Each page produced costs two-thirds less than the industry average. By dispensing with the disposable cartridge the design holds the high environmental ground.

"Our printer differs from the rest because of its character that combines ecology with economy. Our competitors cannot address this," says Nishiguchi.

The competitors, understandably, do not want to be drawn on these arguments. But it is clear they are doing everything possible to improve the environmental profile of their products. New models are, for example, far more energy efficient, are partly made from recycled materials, are packed in recyclable materials and accept recycled paper.

Pressure to improva environmental credibility comes from diverse directions. Certain government purchasing policies now insist on the best environmental option. Kyocera recently won a big order for 1,000 printers from the German Federal Office for the Recognition of Foreign Refugees in Germany, a subsidiary of the labour ministry.

The US's Energy Star labelling system, which promotes energy efficiency, has driven computer and printer makers to reduce the energy consumption of their products if they want to win federal government contracts.

Some big companies are also beginning to demand environmentally better products from their suppliers. Kyocera's heavy promotion – paid for by corporate headquarters to support its marketing in other countries – has underlined the issue in the printer market.

Nishiguchi says the Ecosys conforms with Kyocera's avowed commitment to make products that benefit society and "make a positive contribution to planet Earth".

"The Japanese have a desire to be leaders in everything they do and the environment is one such area. They are very sincere about it but they are also keen to extract competitive advantage," says Alex Mayhook-Walker, a Japanese specialist with ERM, the international environmental consultancy.

Japanese trade organisations, backed by government funds, have recently commissioned research into environmental reporting, waste recycling and disposal methods for used electronic equipment. Much of thia work, according to Mayhook-Walker, is linked to finding new markets.

Japanese companies clearly see opportunities to sell products into the emerging environmental markets in the west.

Kyocera's stab at capturing a small part of the printer market by extolling its green credentials could be an early warning to western manufacturers who feel the heat has gone out of the environmental market.

"A lot of new green products will come out of Japan soon," says Nishiguchi.

Kyocera's advertisement for the Ecosys printer has been criticised because of Japan's poor environmental record

Haunted by Britain's industrial heritage

David Lascelles looks at a new report which proposes ways of cleaning up contaminated land

The twin issues of environmental liability and contaminated land are fast becoming some of the most contentious for the business community in the UK. Yesterday's proposals from the Confederation of British Industry are part of an increasingly concerted effort by business, banking, insurance and the property sector to fend off what they fear could be crippling bills.

"Business interest in this issue is strong and rising," said Howard Davies, the director general. The government is currently conducting a review of the problem after being forced by industry pressure to drop a plan for a contaminated land register earlier this year. This could lead to fresh proposals, possibly a green paper, next year.

The 32-page CBI report is blunt about the problem: "Liability for remedying environmental damage may well become the key environmental challenge facing business in the 1990s," it begins, making clear that the fundamental question is who pays for it. The report was assembled by a working party of CBI members headed by John Wybrew, the director of public affairs and planning at Shell.

As the CBI sees it, the UK has an exceptionally long industrial heritage and this has left it with more contaminated land than probably any other country. But the business community does not accept that it should bear the cost of cleaning it all up, or that every hectare of it even needs to be cleaned up to the same pristine standard.

The report is particularly critical of the legal and regulatory uncertainties that surround environmental liability, and specially an EC green paper issued last May that would try to harmonise it across the whole community on the basis of strict liability.

Wybrew warns that these uncertainties are causing land to be left derelict and deflecting demand for industrial sites into greenfield areas. "We want to harness the wealth creation process to environmental improvement," he said yesterday. The Royal Institution of Chartered Surveyors has already denounced the proposal as "unfair and unpractical".

There are also side issues about the extent to which banks would be liable to foot the bill for contaminated land owned by clients they lend money to and the role of pollution insurance.

The CBI accepts that business should pay for any environmental damage incurred in the future, provided there is a clear and fair legal framework. But the real problem lies with past damage affecting as much as 200,000ha, which would cost up to £1m per hectare to put right, or a total bill of £20bn. A lot of the pollution is historic: no one knows who was responsible, the land may have changed hands many times. Much of it was also legal when it occurred.

A lot of the pollution is historic; no one knows who was responsible, the land may have changed hands many times

Here, the CBI makes a number of proposals.

First, the government should establish priorities for cleaning up contaminated land. Perhaps only 1 to 3 per cent of land needs urgent action. It should also set standards because the requirements for different types of land can vary widely. Dutch soil standards are widely used but these were designed for a particular set of national circumstances and also require land to be improved to a point where it can be put to any use, however sensitive. The CBI thinks that is going too far.

Second, the government can help by linking remedial action to the planning process and by encouraging development of new technology for measuring contamination and carrying out remedial action.

Third, the government and the EC should explore grants as a way of paying for clean-ups. "Mixtures of public- and private-sector funding will be the most effective way to bring land back into use where it is most needed," the report says.

But having made this statement, the report is strikingly vague about how the private sector should play its part. It offers no estimates of how big a contribution business might make, how it could be made and by whom, although the report lists in detail the government agencies who might be able to offer money and also gives a run-down of the amount of public money available for land reclamation.

The CBI has rejected the idea of a compensation fund. John Cridland, the environment director, said yesterday: "The past is the consequence of our industrial heritage, therefore the only appropriate way to pay for it is through the exchequer. I cannot envisage any compensation arrangements that would be fair and equitable."

This weakness in the report was quickly seized on yesterday by environmental campaigners who accused the CBI of trying to wriggle out of its responsibilities and push the cost on to the taxpayer. They also said that industry was effectively trying to secure a competitive advantage in Europe at the expense of the public and the environment.

Friends of the Earth said that a tax should be levied on all potentially polluting industries to create a fund to clean up land where the polluter cannot be found. It also favours a contaminated land register and strict liability.

But the picture is less clear cut than that. Local authorities, who are very close to the problem, have had difficulty forging a common position on who should pay.

"There are no easy answers" said an official at the Association of Metropolitan Authorities.

PEOPLE

Ex-surgeon to correct the balance at UBS healthcare

One of the more familiar names in the healthcare business has joined UBS as a director, corporate finance. John Heap trained as a surgeon, specialising ultimately in infertility treatments in obstetrics and gynaecology. But since 1980 his instruments have been rather more metaphorical than practical.

Heap has spent the past 13 years in a variety of senior European healthcare positions, all of which have primed him for his new role, which will be to assist UBS to steal a march on its competitors all fiercely engaged in staying in the middle of the new business stream being generated by mergers, floats and buy-outs in the now tightly squeezed pharmaceutical sector.

"One of the principal issues facing the pharmaceutical industry now is research and development costs, which cannot persist at the level they hava reached," says Heap. "Globally, some $30bn is annually spent on R&D, which is an unsustainable figure when compared with generated sales of perhaps $130bn. The ratio is wrong. Pharmaceutical companies will either have to trim their R&D costs, re-focus their research, or increase sales enormously. The latter is very difficult, the first is very easy but ineffective. What needs to happen is for companies to re-focus their efforts and minimise their duplicated efforts," argues Heap.

Heap's expertise has been gained through broad experience. On leaving the national health service, he joined the Belgian company Janssen Pharmaceuticals as a senior medical adviser. He went on to join the French company Mérieux, as medical director, helping establish it in the UK.

In 1983 he joined Lorex Pharmaceuticals as the board director covering Italy, the Netherlands and the UK, and moved to Evans Healthcare in 1986.

UBS has busied itself in the healthcare market recently, recruiting a couple of analysts in London as well as one each in New York, Tokyo and Zurich. It recruited Heap in the belief that the pharmaceutical industry is about to undergo the same sorts of upheaval over the next decade as befell the computing industry in the past two.

■ **Ian Johnston**, currently md of Schweppes Cottee'a, a subsidiary of CADBURY SCHWEPPES in Australia, is appointed to succeed David Brooks as md of Cadbury when he retires on January 3.

■ **Mike Burgess**, formerly finance director of Fisons' horticultural division, has been appointed director – internal audit of LUCAS INDUSTRIES; Peter Skeggs becomes group treasurer.

■ **Noreen Wright** has been appointed company secretary of NORTHERN IRELAND ELECTRICITY; she succeeds Gerald Nickell.

■ **Richard Stubbins** has been appointed finance director of MERIEUX, the UK subsidiary of Pasteur Merieux Serums et Vaccins.

■ **Michael Feiner** has been appointed senior vice-president of personnel for Europe at PEPSICO; he will be based in London.

■ **Gerd Schlenzka** has been appointed finance director of KWO Kabel Gmbh, a subsidiary of BICC CABLES; he will be based in Berlin.

■ **Keith Smith** has been promoted to the post of UK sales director of IPC Information Systems.

■ **The Hon David McAlpine** and **Cullum McAlpine** have been appointed to the board of NEWARTHILL, holding company for Sir Robert McAlpine; Kenneth McAlpine has retired.

■ **Ian Knott**, deputy md of Sira Test & Certification, has been appointed chief executive of SIRA Certification Service on the retirement of Terry Flanagan.

Curry spices up meat market

A Northumberland farmer by profession, Don Curry, 49, has been appointed by the government as acting chairman of the Meat and Livestock Commission; he had been deputy chairman of the MLC since December 1991. The MLC's former chairman, Geoffrey John, has moved to take up the post of chairman with Food From Britain.

Chairing the MLC is a three-day-a-week job. Besides his farming interests, Curry is chairman of a livestock marketing co-operative based in Ponteland, also in Northumberland. Ha first joined the MLC in 1986, having attracted ministerial notice through his work on the council of the National Farmers' Union.

Although not full-time, the MLC is nevertheless a demanding job, with "a lot of public relations, meetings and committees to attend, representing the MLC at various events," says Curry. He describes it as "a very important body with an annual budget of £2m for research and development projects aimed at improving the long-term efficiency of the industry".

Probably the most publicly visible activity of the MLC in recent montha has been its controversial advertising campaign using the slogan "Meat to live". "I don't think that is taking things too far," says Curry. "We take a responsible view of our advertising. There is a lot of nonsense talked about meat-eating. There is an awful lot of advertising which one could look at and ask if what it is saying is actually correct."

Curry says that "when and if" he was asked by the government to stay on permanently as chairman he would have to give it serious consideration. For the moment Gillian Shepherd, the new agriculture minister, has just begun to get her feet under the table; the temporary nature of Curry'a MLC post may well change once Shepherd has sorted out a few sheep from goats.

Constructive careers

■ **Malcolm Eckersall**, chairman of Amec Construction, has been appointed to the main AMEC board; he is responsible for the group's building and civil engineering activities throughout the world.

■ **Chris Randle** has been appointed md of JOHN MOWLEM Construction's Northern Region which comprises North Wales, North West England, Yorkshire and the North East.

■ **David McAlpine** and **Cullum McAlpine** have been appointed to the board of NEWARTHILL, the holding company for Sir Robert McAlpine; Kenneth McAlpine has retired.

■ **Donald Bethune** (below left) has been appointed director of technical services at the LONDON DOCKLANDS DEVELOPMENT CORPORATION; he succeeds Tom Hoke who was seconded from Bechtel as director of infrastructure programme.

■ **Paul Ahearn** (below right), formerly md of Norwest Holst Construction, has been appointed a director of WILTSHIER.

MANAGEMENT

Rewards for the top performers

David Goodhart on the curious appeal of UK performance-related pay schemes

Performance-related pay in the UK is a puzzle. There is overwhelming scepticism about is effects on performance, yet its progress seems unstoppable.

Over the past few years this may owe something to government patronage as PRP has been, or is being, imposed on the civil service, the NHS, the educatioo system and now the police force.

Yet government patronage is only part of the story. A 1991 study by the National Economic Development Office found that about half of all private-sector organisations in Britain were using PRP for some staff and more than one third had been doing so for more than 10 years.

Despite its long pedigree there is considerable muddle about what it is and bow widely it has spread. PRP – oot to be confused with profit-related pay, which attracts varioos tax advantages – could cover anything from piece work for manual workers, one-off merit pay schemes, or simply the promotion of good performers to higher-paid jobs. But in practice it has come to describe the linking of all, or part, of an individual's pay rise to a formal performance appraisal system.

The most recent research from the Institute of Manpower Studies finds that more than two-thirds of all UK organisations now have individual-based PRP for at least some of their staff. The majority of schemes apply to managers or valued "core" staff, but the trend of the past few years has been for the system to trickle down to white-collar staff.

It is still relatively unusual for manual workers, although Nissan's British assembly plant is an exception, and the real extent of PRP can be easily exaggerated. A glance at the government's latest New Earnings Survey shows that productivity/incentive pay for all non-manoal employees increased from 2.6 per cent of gross earnings to 3 per cent between 1992 and 1993.

It is difficult to tell how much of that 3 per cent is PRP as tha NES does not break down incentive pay into differeot categories. But even if PRP accounted for a good part of it, it would still be far less than the productivity pay arrangements that in 1993 accounted for 5.3 per cent of manual workers pay.

Also, although two-thirds of all organisations may have some form of PRP, when settlement groups within organisations are examined, as they are by the Industrial Relations Services pay databank of more than over 1,000 sucb groups, PRP coverage falls to only 20 per cent.

Nevertheless, PRP is on the march in the private and public sectors, and most companies in sectors sucb as building societies, banks and insurers have PRP for their staff and usually for the whole pay rise.

Little work has been done on evaluating the effectiveness of schemes but, according to the last IMS case studies, PRP does more to demotivate than to motivate staff and neither helps to retain high performers nor dispatcb poor performers. Other studies find tbat the motivational effects of PRP are, at best, neutral.

> **The introduction of PRP is a powerful signal for a broader change of business culture**

What explains its continuing popularity? First, for government ministers and private-sector managers the introduction of PRP is a powerful signal for a broader change of business culture. And it is often accompanied by other moves towards individualising employer-employee relations – such as team-briefings, profit-sharing and bealth schemes.

Second, as organisations become "flatter", stripping out layers of management, the ability to reward people through promotion becomes more complex. PRP, and a widening of pay scales, is one answer.

Third, as Louis Wustemann of the IRS points out, although PRP companies often seem to make higher pay awards than non-PRP companies, many of them are actually making substantial savings in salaries. That is because a surprising number of companies in sectors sucb as finance and chemicals still have service increments which can pay people about 2 per cent a year, as they move up seniority scales, on top of an annual pay rise. With the introduction of PRP these service increments are usually abolished.

There are more traditional arguments in favour of PRP which few people disagree with in principle. Why pay the same rise to someone just avoiding the sack, as to someone who is making a substantial contribution? Also, it is inefficient to promote someone from something they are good at to something they might not be good at because it is the only way of paying them more.

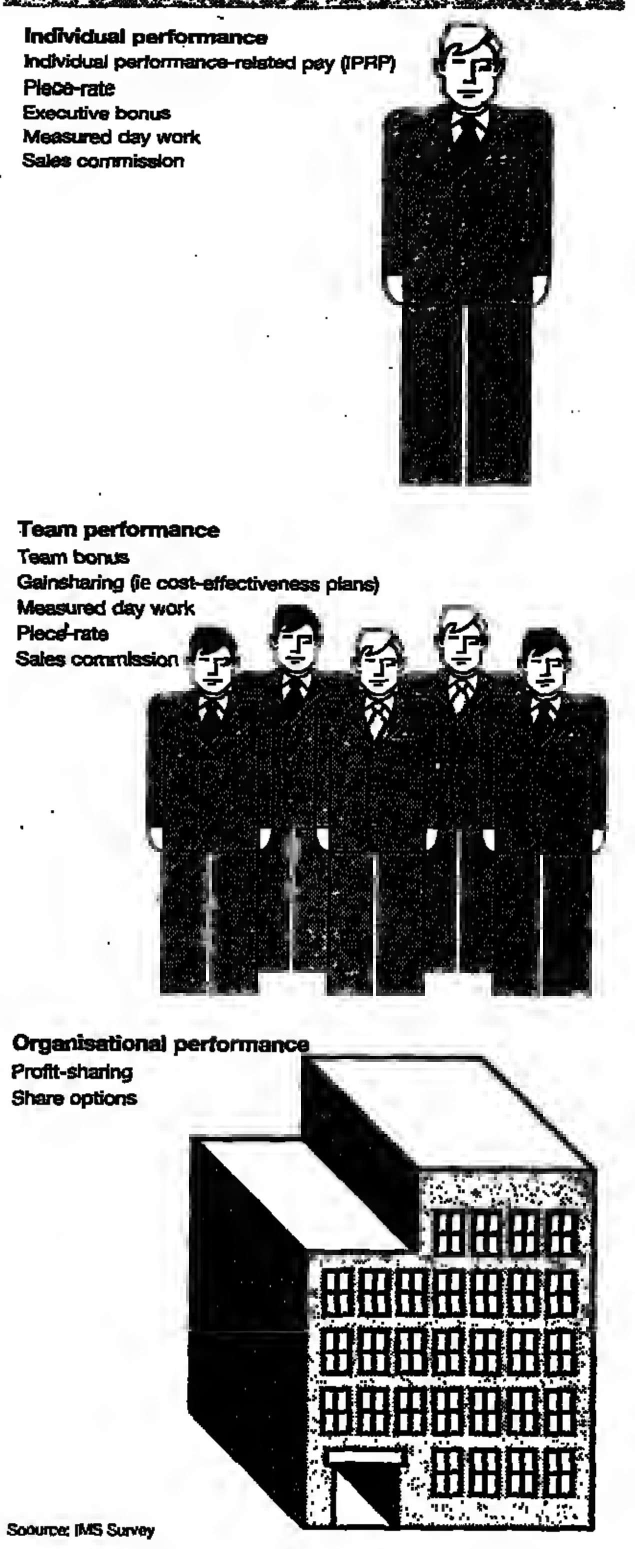
The principle is fine but, as Wustemann says, PRP is something that is easy to do badly. The fair and accurate measuring of individual differences in performance is an art still in its infancy.

Most personnel managers say it is easier to measure performance for senior staff with some autonomy or for clerical staff with clearly defined functions. But for the growing number of middle-ranking, white-collar staff, things are more complex and many sucb employees believe themselves to be victims of bias in line-manager appraisals. There is also some doubt that individuals will increase their effort to gain more reward, especially as the sums involved are usually quite small.

Alan Wild, head of employee relations at Guinness, says "PRP must be only one piece of the motivational matrix."

Most practitioners believe PRP is not a re-incarnatioo of the bogus productivity deals of the 1960s. There are, however, limits to its progress as teamwork for both blue- and white-collar workers switcbes attention to group reward systems. For senior staff it will, according to Wild, continue to play a useful role in "focusing" efforts.

Further articles on PRP will appear in the next few weeks.



Lucy Kellaway asks if incentive plans are really all they are cracked up to be

Eat your greens and then you can have an ice cream. Do your homework and then you can watch television. Work harder and then you can have a bonus.

The notion of offering a reward for good behaviour is embedded in Anglo-Saxon culture. Parents do it and so do companies. Performance-related pay, bonuses or other forms of incentive scheme are used by most British and US companies. Those that do not are regarded as being in the managerial dark ages.

Imagine the outcry when a respected management theorist suddenly announces that all such reward systems are bound to fail and should therefore be removed. Writing in the latest issue of the Harvard Business Review, Alfie Kohn argues that at the heart of performance pay lies a mistaken view of what motivates people: rewards do not change attitudes or commitment to any task. They simply, and temporarily, change what we do.

Kohn draws on dozens of studies in the US which show that at best rewards buy short-term compliance. The more complicated the task, the more ineffective the reward. He argues that incentives are equally hopeless at motivating senior and junior employees. Both on the shop floor and in the boardroom rewards are powerless to increase results. Surveys have failed to establish any link between top pay and company performance.

Kohn cites the example of a mid-western manufacturing company, where an incentive system for welders was suddenly dropped. Productivity fell initially, but after a few months was back where it had been before.

Six reasons are advanced to support his thesis:

● Pay does not motivate people. Studies have shown that if you halve somebody's pay you demotivate them, but if you double it the reverse does not happen. Moreover, if you ask people what matters to them most in their jobs, money usually comes well down the list.

● Rewards are like punishment. Managers have long known that punishment is ineffective, but rewards are just as manipulative of employee behaviour. Those who do not get a reward may feel as if they have been punished.

● Rewards destroy co-operation between employees in the scramble to compete for them. They also encourage people to suck up to the boss.

● Rewards mask what is happening in a company. Managers frequently use rewards as a substitute for dealing with the problems that cause low productivity. It is easier to offer a reward than to treat workers well, to give them feedback, support and freedom.

● Rewards discourage people from being imaginative and from taking risks. Instead, employees focus narrowly on the criterion for the reward, and may even falsify records to ensure the reward is theirs.

● Rewards divert attention from the job in hand, by encouraging workers to concentrate on the reward rather than on the work. If the work is seen as a means to an end, it becomes less desirable.

> **Rewards destroy employee co-operation in the scramble to compete for them**

Kohn is not a lone voice. Other management thinkers in the US – such as Robert Fritz, a composer turned management guru – are reaching the same conclusion. He argues that people are really looking for involvement, not for reward. "If you have been raised to think: what's in it for me, you can't be involved. Companies should encourage people to play the game for its own sake," he says.

Kohn's article, however, has drawn an angry howl from more traditional management thinkers. Those who make a living from selling such incentive schemes have been left apoplectic with rage. G. Bennett Stewart III of Stern Stewart, a financial advisory firm, fears the very future of capitalism is at stake. He has written to the Harvard Business Review protesting that: "A world without A's, praise, gold stars or incentives? No thank you, Mr Kohn. Communism was tried and it didn't work."

Jerry McAdams of the US consultancy Performance Improvement Resources claims that "Kohn's article is a provocative exercise in attention getting and niche marketing".

Others have taken issue with parts of Kohn's thesis, while admitting that there is good sense in some of it. Andrew Lebby of the Washington DC-based consultants The Performance Group argues that although money is not a motivation it may be valued by employees as a sign that employers appreciate their work.

Still others dispute the notion that concentrating on money detracts from the job itself. One reader quotes the poet Anne Sexton: "I am in love with money, so don't be mistaken. But first I want to write good poems. After that, I am anxious as hell to earn money and fame and bring the stars all down." Another disagrees that incentives encourage employees to undermine each other, arguing that rewards for teamwork are the answer.

It is one thing to dismiss incentives, it is another to come up with an alternative system. Michael Beer, professor at Harvard Business School assumes the answer cannot be to pay everyone the same and offers his own solution. Managers should not use pay as a means of motivating, but should pay people equitably. There should be no quarterly or annual bonuses. Instead, he argues, the best 10 per cent of employees should be rewarded for outstanding, long-term performance. The worst performers should be "weeded out". All the others should be praised and have their contributions recognised.

Rather than hand out rewards, Kohn believes companies should offer employees better job control, a share in the decisions and a climate of support. But there is no hope of that as long as they go on treating their people like pets.

Television/**Christopher Dunkley**

Try the taste – for starters

The trouble with television these days is the sheer quantity. Take a break and when you come back there is so much to catch up on that the benefit of tha holiday rapidly evaporates. You can expect no sympathy, of course, if you complain about being paid to watch television, yet a sense of panic can set in when you sit down with the *Radio Times* at the beginning of a week and realise just how much has to be watched. Even with three video recorders for evenings when there is a four-way clash at 9.30, you etill find yourself hunched, red eyed on the old green sofa, zapping from one channel to another, forever convinced that you are missing a masterpiece somewhere. The danger is that in trying to get a taste of everything you do not get the true flavour of anything. Still, in Week 1 of the return there was really no choice: widespread sampling was a necessity.

MONDAY. BBC1's *Watchdog* under its new presenter Anne Robinson looks as though it may be turning into yet another example of a "people show" instead of the consumer series it used to be, but we shall need to see more to be sure. BBC2's *The Incredible Shrinking Politicians* is presented, of course, by Martin Jacques. "Of course" because nothing is so slavishly trendy as television and left winger Jacques has taken over from left winger Peter Kellner as flavour of the moment for political programmes. He is personable enough but currently ridiculously over exposed. Moreover his thesis here, that politics is in long term decline, seems doubtful. More likely a blip on the historical graph.

TUESDAY. Anyone who thought that the Beadle shows reached the limits of cringe-TV ought to glance at The Hypnotic *World Of Paul McKenna* on ITV. It is difficult in a free society to defend the now defunct IBA rule banning hypnosis programmes; if the victims are willing and paid who are we to act as nanny? Yet I would no more watch this voluntarily than pelt a victim in the stocks. *Without Walls* on C4 has become just about the best culture series on television. The item "Reith To The Nation" seems unsure whether to tackle the condition of the BBC or the weirdness of Lord Reith as revealed by Ian McIntyre's recent book, but it succeeds moderately in both. Tony Parsons' blast at Kubrick for banning *A Clockwork Orange* from British screens is an excellent example of the arts polemic we have come to expect from this series. It looks as though the second batch of *Between The Lines* will confirm this BBC1 production as much the best current police series . . . even if the idea of a cabinet minister removing his secretary's bra in front of a brightly lit un-curtained window *is* laughable. You might have thought it difficult to make a character as odd as Houdini vaguely boring yet *Omnibus* manages it. Pirates And Emperors – *Who Is The Terrorist?* on C4 has a single unoriginal point to make but makes it well: that today'e vilified terrorist is tomorrow'a respected government minister.

WEDNESDAY. The best comment about Margaret Hilda'a appearance in *Thatcher: The Downing Street Years* is made by Kenneth Clarke during an engrossing *Late Show* on BBC2 which discusses history as print and as television. She is like a jet turbine, he says: while an internal combustion engine can work at various speeds, ehe is only capable of operating at 30,000 lb thrust. No book will ever achieve what BBC1'e *Thatcher* series is managing in conveying the attitude, tone and presence of the former prime minister. On the other hand it is hard to see the valne of The Almost Complete History Of *The 20th Century* on C4 which dubs "funny" linea onto archive newsreel.

THURSDAY. The producers of *The Music Game* on C4 seem to have noticed that *My Music* was hugely popular for many years even though the participants were not great musical experts. Unfortunately they appear to have missed the fact that Muir, Norden and the others were charming, funny and unusually inventive. BBC2's *Red Dwarf* has always contained the sort of jokes which delight first year undergraduates after they have drunk 12 Budweisers and, judging from today's episode, this sixth series is not even up to that standard . . . yet who would miss it? Gags in deep space make such a refreshing change from Ding Dong Honey I'm Home. How splendid to discover that I did miss today's episode of *Absolutely Fabulous* on its first transmission: with Jennifer Saunders being so clever and Joanna Lumley proving not just outrageously fanciable but such a natural comedian it is a superbly entertaining series. Lumley'e dismount from the motorcycla was the highpoint of the week. In *World Chess* why does C4 not tell us the score to date? Could it be such a disaster for Short that thay do not dare? Having been away perhaps I shall never know.

FRIDAY. ITV's drama series *Demob*, starring Griff Rhys Jones and Martin Clunes as a couple of inept comedians in tbe postwar music hall, is workmanlike and contains a straight (well, semi straight) performance from the late great Les Dawson. Yet the time drags and I cannot see myself watching next week's episode. *Eurotrash* on C4 with Antoine de Caunes and Jean-Paul Gaultier competing in zer farnee aggzents competition and items concentrating on sexual trivia (the pubic hair stylist, a new show at the Folies Bergère) is the sort of zany time-passing programme which you watch late in the evening when there is nothing worthwhile elsewhere. Late *Night With Conan O'Brien* on BBC2 proves that, with Johnny Carson gone and David Letterman switching networks, tha American chat show is in deep trouble. O'Brien is awful and tbe sbow, because it seeks nothing from its guests, even worse. Pessimistic reports about Danny Baker's new show filtered back as far as Umbria, but surely his series must be better than this.

SATURDAY. It is. In fact, *Danny Baker After All* (BBC1) is very good Saturday night entertainment, and if they manage to find one guest in six who is as good a raconteur as Rik Wakeman today, this could become as big a draw as the early *Parkinson*. Earlier in the evening *Harry* looks like a too-carefully contrived vehicle in which Micbael Elphick can merely carry on from his *Boon* character, this time as a rough diamond journalist; formula drama which may sustain the ratings but will never tell us anything we did not know about the human condition. D.A. Pennebaker's documentary on BBC2 about the Clinton election staff, *The War Room*, is good but not great. We have seen much of this sort of material and you have to do something more unusual to stand out nowadays.

SUNDAY. In the early evening there are three documentary series which could keep me hooked for weeks. *Theatre School* on BBC2 may be at its most fascinating in this opening episode with the auditions and some pretty brutal interviews, but it is very nicely edited and promises mucb. If, like me, you have bought and driven old German motorbikes then you will devour every minute of C4's *Classic Motorcycles* and if not you will probably be bored to tears; it seems to be dictated entirely by the availability of archive footage. *Locomotion* on BBC2, bowever, is not solely for steam train freaks since it seems far more concerned with tbe social implications of the development of tbe railways, which makes a change. With *Scarlet And Black* (what bappened to the definite articles?) BBC1 faces a tough job: proving that it really is best when it comes to the classic literary adaptation. Stephen Lowe's decision to insert Napoleon into his dramatisation as a sort of Tinkerbell, flying around offering our hero terse advice, scarcely makes matters easy. But Stendhal was a good storyteller, the casting of Alice Krige as the beautiful young wife, ripe for a love affair, is spot on, and, apart from some nasty background music, all the ingredients are in place: carriages, outsize top hats, sylvan idylls straight out of a margarine commercial, and plenty of upstairs-downstairs jiggery pokery. A hit.

'Reith to the Nation': Timothy West as Lord Reith in Channel 4's 'Without Walls'

Theatre/**Alastair Macaulay**

The Madam of the Balconies

What price beauty in times of poverty? Why work to revive the art of the past when deprivation is all around? With lyricism and with poignancy, this play by Mario Vargas Llosa addresses these questions. It has no answers; this is not (thank heavens) a didactic play. At times, indeed, it is hardly a play – more a great swelling funeral ode for the culture of the past. But one watches it with s very full heart. A work of art is a testament to the glory of the human spirit. How then can meo so readily let art be destroyed? Alas, they do so all the time.

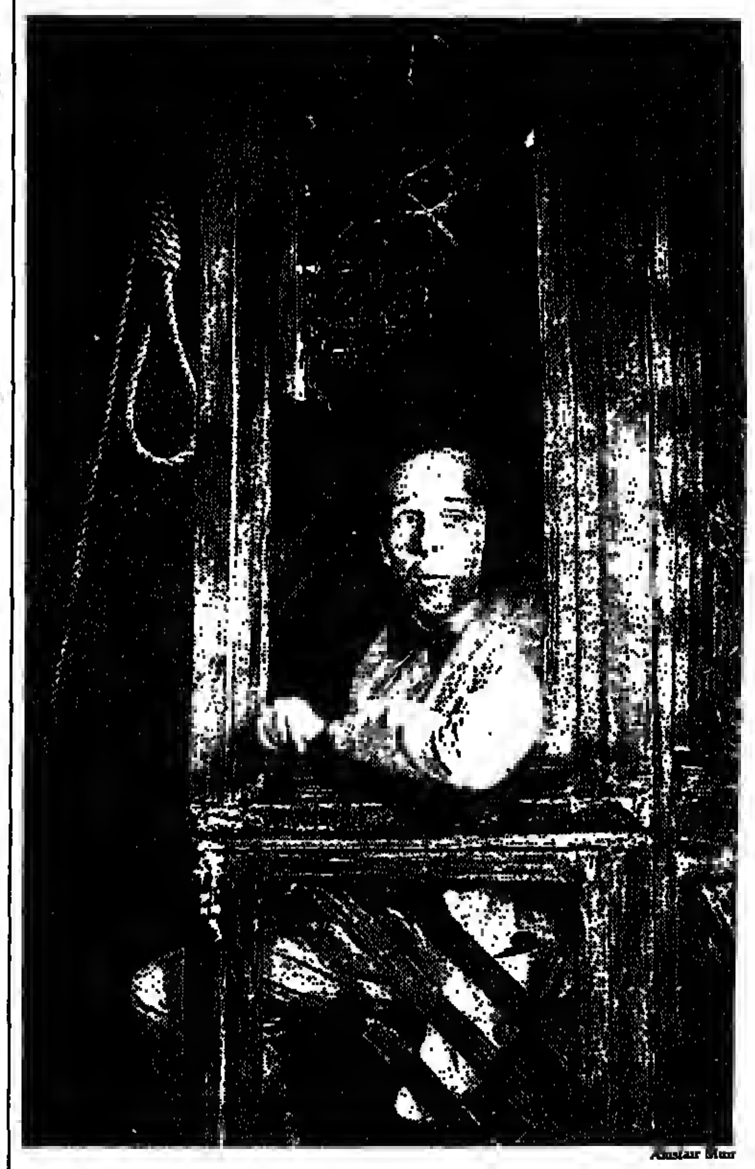
Professor Brunelli, "the madman of the balconies", is an old Italian who lives in a scruffy old district of Peru and wbo, as old houses are destroyed to make way for modern high-rise tenements, dedicates his life to saving their balconies. Each old balcony is an example of artistic traditions that speak of generations of Spanish and Arab craftsmanship – that speak of the cross-cultural paths of culture itself. The professor leads a crusade of entbusiastic young boys and old women – a crusade that fails. Modern town planners reject the balconies as antiquated, oative South Americans revile them as examples of cultural imperialism, the old ladies are scared away by the dangers of the slum districts, and the Professor's own daughter blames him for sacrificing her life to his cause.

This Gate staging has designs by Marjoke Henrichs of aching beauty – with shards of old-gold balconies in layer upon layer, foreground, midground, background, against dazzling azure. Hettie Macdonald, directing, has caught a sense of South American culture by qualities of intonation and gesture throughout her cast of 15. She fills the stage with such depth and breadth of character and colour that we are often contentedly suspended in a situstion that is nearly plotless.

The performance is dominated by Peter Eyre, who makes the Professor as cultivated, as quaint, as significant, as one of his balconies. He rises to, and reveals, the lyric threnody of Llosa's text with the greatest vocal distinction. He employs an old tenor voice – oow reedy, now mellifluous, now suddenly desceoding into a deep, mellow baritone – and effortlessly strings three or more sentences together oo a single breath: all of whicb conveys not virtuosity but feeling. Much of the play consists of his soliloquies – which often are his tender address to the city of Lima itself, "my little whore".

I wish the Gate supplied its audience with more information about this play – its date of composition, its previous performances, and so on; but I have little else to object. The Gate's reputation is largely built upon its stagings of foreign plays by dead authors, and it is good that (since Llosa is alive and kicking) this production reminds us that tbe Gate also bonours world drama of tbe present day. Llosa never tells us that his balconies symbolise anything. It is enough for him to make the Professor's world real to us: admirable. Still, we may certainly take those balconies as symbols. And among other things they symbolise the art of the Gate itself – the little theatre that in impoverished conditions struggles to revive the past, to enlarge our knowledge of cultures outside our nation, and to make ns feel that other cultures are in fact ours too.

At tbe Gate, W.11, 071-229-0706, until November 27



Alastair Muir

Peter Eyre as the Professor

Opera/**Paul Griffiths**

'Stiffelio' at the Met

At the Met, as at Covent Garden, early Verdi suddenly seems to matter. *I Lombardi* is to be presented by the company for the first time in December; *Stiffelio* has just opened in a production which, at least in textual terms, goes a step further than last season's Royal Opera House version towards restoring the work that the composer refashioned as *Aroldo* in 1856, after several years of having his original bowdlerised.

What we were hearing, indeed, was the first performance anywhere of what he wrote. At its premiere, in Trieste, the piece was stymied by censorship (unsurprisingly, given that it is set in Austria and puts clerics, albeit Protestant clerics, on the singing stage), and in subsequent revivals the minister Stiffelio became a prime minister, necessitating the wonderful new title of *Guglielmo Wellingrode*. The *Aroldo* adaptation has generally been regarded by Verdi experts as a desperate attempt to retrieve a messy eituation, and certainly the resulting score remains the least loved of Verdi's post-*Rigoletto* operas.

According to those same experts, *Stiffelio*, written immediately before *Rigoletto*, is the real thing. For them, then, this will have been an occasion of some moment. Here at last is the piece, with the music not used in *Aroldo* – music long thought ditched or lost, and recoverable only from copies – played from a new edition that has benefitted from the rediscovery last year of the autograph material.

Whether *Stiffelio* will now become as familiar as *La Traviata*, or even *La forza del destino*, is, however, uncertain. It's a strange piece. Some of the orchestral writing seems frankly experimental – not so much in the overture, which is a miscellany (little wind pipings cruelly hard to play, a broad trumpet tune, a bright unashamed dance), but certainly at the start of the second act, where a moonlit churchyard calls up chromatic curlings from divided strings and a jamming of unlike themes, or in the third, where dissonance is an emblem of the doubt felt by two audiences – that in the church on stage, and that in the theatre – as to what Stiffelio will do and say when he goes up into the pulpit after the catastrophes that have abruptly befallen him: learning of his wife's unfaithfulness, and having his conciliation pre-empted by his father-in-law's murder of her lover.

Another curiosity of the opera is that these things aren't substantiated by what we see. The lover, Raffaele, is an exceedingly shadowy figure. In the first act he features prominently in just one tiny scene; in the second his main function is to prompt the lady, Lina, from her cantabile into her cabaletta; and in the third he gets killed almost without opening his mouth. One has the impression of a character who is refusing to take part for fear of incriminating himself. His silence, and his burying of himself in the work's majestic ensembles (other characters are buried there too: Dorotea and Federico), help to create the pall of guilt that gives the opera, right from the start, a quite particular colour.

Or maybe this is only the pall of our own ignorance of the work, though I doubt it, since Verdi seems here to be placing us quite actively in ignorance, so that we may sympathise with Stiffelio in his gradual awakening to the truth, and also in his moral resolve to deal with the present and not rake over the past.

The role is, again, unusual. Lyricism is the way Stiffelio behaves under delusion: in a beautiful barcarolle near the start, with an orchestra mellowed by horn tone, he tells of seeing an amorous escapade which he does not know involved Lina and Raffaele. Thereafter, along the line of his discovery and self-discovery, his big numbers are all duets and ensembles, and his vocalism becomes urgent, declamatory, baritonal. The part could have been made for Placido Domingo st this point in his career: what might otherwise be faults – the hefty projection, the top beginning to waver – become the means by which he conveys the man's solidity holding against extremes of pressure. There is no refuge here in piety: his great cry of "Sacredote sono!" (perhaps not the likeliest words for Piave to have put into the mouth of a Protestant pastor) sounds out with the force not of self-restraint but of self-realisation.

The other leading principals in this production are Sharon Sweet as Lina and Vladimir Chernov as her father Stankar. Ms Sweet makes a big and often beautiful sound: she has no trouble in scaling above full ensembles, but she does have problems when something more gentle might be useful, or something more accurately on the note. Chernov, though asking our indulgence at the opening performance on account of a throat infection, gave a magnificent performance: his grey, severe tone was vigorously focussed, his phrasing pliant and moving, his pacing of the large-scale third-act aria unerring.

James Levine, conducting, lets us enjoy the score's extravagances and even its banalities. The production is strong in both these categories too. Michael Scott provides sets in the Met'a fossilized naturalist manner (a vast Gothick panelled library for most of the indoor action, a light-filled creamy church interior for the final scene); Giancarlo del Monaco's work as director is in the same vein.

INTERNATIONAL ARTS GUIDE

■ BONN

Oper The main event this month is Gian-Carlo del Monaco'e new production of La fanciulla del West, opening on Nov 14 with a cast led by Barbara Daniels, Alexei Steblianko and Sherrill Milnes. Repertory includes Lortzing's Der Wildschutz, Verdi'e Otello and Prokofiev's ballet Romeo and Juliet (0228-773667)
Beethovenhalle Tomorrow: Michael Schoenwandt conducts Orchestra of the Beethovenhalle in works by Bartok and Schoenberg, with violin soloist Alexnader Zeiher. Fri and Sun: Continuum Ensemble in contemporary vocal and instrumental music from Ukraine and the Caucasus (0228-773666)

■ BORDEAUX

Palais des Sports Tonight and tomorrow: John Nelson conducts Orchestre National Bordeaux Aquitaine in a Grieg programme, with piano soloist Kun Woo Paik and soprano Solveig Kringelborn. Next Tues and Wed: Yutaka Sado conducts works by Prokofiev and Shostakovich, with piano soloist Barry Douglas. Nov 12-18 at Grand-Théâtre: Stravinsky ballet production (5648 5854)

■ COPENHAGEN

Royal Theatre Tonight, tomorrow: choreographies by Balanchine and Anna Laerkesen. Fri: Alexander Gibson conducts David Radok's new production of Peter Grimes, with s cast led by Stig Fogh Andersen, Tina Kiberg and Norman Bailey. Sat: Tchaikovsky ballets. Sun, next Tues: Don Pasquale. This month'a repertory also includes La traviata, Napoli and guest performances by Tokyo Ballet on Nov 19 and 20 (tel 3314 1002 fax 3312 3692)

■ COLOGNE

Philharmonie Tonight: Lockenhaus Festival Ensemble, including Elena Bashkirova and Tatiana Grindenko, plays chamber music by Schumann and Schnittke. Fri: Leonard Slatkin conducts Saint Louis Symphony Orchestra in works by Claude Baker, Beethoven and Stravinsky, with piano soloist Rudolf Buchbinder. Sat: Gary Bertini conducts Cologne Radio Symphony Orchestra in Debussy, Ravel and Tchaikovsky. Sun morning, Mon and Tues evening: Paavo Berglund conducts Gürzenich Orchestra in Ravel, Shostakovich and Sibelius, with cello soloist Frans Helmerson. Sun evening: Armin Jordan conducts Orchestra de la Suisse Romande in Gaudibert, Bartok, Debussy and Ravel, with piano soloist Martha Argerich. Next Wed: Colin Davis conducts Dresden Staatskapelle. Next Thurs: Jessye Norman (0221-2801)
Opernhaus This month's repertory – Billy Budd with Boje Skovhus and Victor Braun, Tosca with Galina Kalinina, a TanzForum triple bill choreographed by Jochen Ulrich, Die Zauberflöte and L'Italiana in Algeri starring Kathleen Kuhlmann and Ferruccio Furlanetto (0221-221 8400)

■ DUSSELDORF

Schauspielhaus This month's programme is dominated by three Shakespeare productions – A Midsummer Night's Dream, Romeo and Juliet and a new production of Troilus and Cressida opening on Nov 20. Repertory also includes Brecht's Mr Puntila, Ibsen's Peer Gynt and a new production of Büchner's Woyzeck, opening on Nov 14 (tickets 0211-369911 information 0211-162200)
Deutsche Oper am Rhein Tonight: Die Zauberflöte. Tomorrow: Aribert Reimann's Kafka opera Das Schloss. Fri: The Golden Cockerell. Sat: Stravinsky ballet programme. Sun: Le nozze di Figaro. Next Tues: Heinz Spoerli's production of Swan Lake (0211-890 8211). Duisburg Theatre has Fidelio on Sat and Don Giovanni on Sun (0203-300 9100)

■ FRANKFURT

Alte Oper Tonight: Cliff Richard. Tomorrow: BB King. Fri: Jessye Norman. Sat: Murray Perahia directs Chamber Orchestra of Europe. Mon: Fats Domino. Tues: Colin Davis conducts Dresden Staatskapells in symphonies by Beethoven and Berlioz (069-134 0400)
Jahrhunderthalle Tonight, tomorrow: Compania Nacional de Danza, Madrid, in choreographies by Nacho Duato (069-360 1240)
Oper Tomorrow and Sat: Il barbiere di Siviglia. Fri and Sun: Cosi fan tutte. Nov 14: first night of new production of Simon Boccanegra (069-236061)

■ GOTHENBURG

Konserthuset Tonight and tomorrow: Neeme Järvi conducts works by Stenhammar and Richard Strauss. Next Tues: chamber music programme with works by Varese, Zappa and Bernstein (031-167000)

■ HAMBURG

Staatsoper Tonight, Fri, Sat, next Mon: John Neumeier's version of Swan Lake. Tomorrow, next Wed: Fidelio. Sun: choreographies by Neumeier, Van Manen and Ek. Nov 12, 17, 20: John Neumeier'e ballet to Mozart's Requiem. Nov 13, 18, 24, 26: La traviata with Tiziana Fabbricini. Nov 14, 21, 28: Tristan und Isolde (040-351721)
Musikhalle Tonight: Armin Jordan conducts Orchestre de la Suisse Romande, with piano soloist Martha Argerich. Sun morning, Mon evening: Walter Weller conducts Hamburg State Philharmonic Orchestra in works by Mozart, Brahms and Rakhmaninov, with violin soloist Kyoko Takezawa. Sun evening, next Wed: concert performance of Der fliegende Holländer. Tues: Sandor Vegh conducts Camerata Academica Salzburg. Nov 16, 17: Nikolaus Harnoncourt conducts Brahms' German Requiem (040-354414)
Deutsches Schauspielhaus Tomorrow: first night of new production of Goeths's Faust Parts One and Two, adapted and directed by Christoph Marthaler. Nov 19: German premiere of Tony Kushner's Angels in America (040-248713)

■ MUNICH

Staatsoper Tonight, Sun: La boheme. Tomorrow: Minkus' ballet Don Quixote. Fri, next Tues: Michael Boder conducts August Everding's production of Penderecki's Ubu Rex, with Robert Tear in title role. Saturday, next Wednesday: Le nozze di Figaro. November 11: the first night of a new production of La Damnation de Faust (089-221316)
Gasteig Tonight: Polish Classical Philharmonic Orchestra plays concertos by Pleyel, Hummel and Devienne. Tomorrow: Leonard Slatkin conducts Saint Louis Symphony Orchestra in works by Berlioz, Barber, Beethoven and Gershwin, with piano soloist Rudolf Buchbinder. Saturday: Colin Davis conducts Dresden Sattskapelle in Beethoven's Sixth Symphony and Brahms' First. Sunday, next Tuesday, Thursday, Friday: Sergiu Celibidache conducts Munich Philharmonic Orchestra in symphonies by Haydn and Tchaikovsky. Monday: Jessye Norman song recital (089-4809 8614)

■ OSLO

Konserthus Tonight: Budapest Gypsy Orchestra. Tomorrow, Friday: Hartmut Haenchen conducts the Oslo Philharmonic Orchestra in works by Arne Nordheim (b1931), Strauss and Schubert. Saturday: Ravi Shankar. Monday: Itzhak Perlman violin recital. Next Thursday, Friday: Eliahu Inbal conducts Mahler's Seventh Symphony (2283 3200)

■ STOCKHOLM

OPERA
The Royal Opera has new production of La traviata conducted by Marco Guidarini, staged by Knut Hendriksen, with Lena Nordin and Britt Marie Aruhn alternating as Violetta. Repertory includes Elektra, Cav and Pag, Boccaccio and Beryl Grey's Sleeping Beauty. Later in the month new productions of The Turn of the Screw and Glen Tetley'e ballet The Tempest (tickets 08-248240 information 08-203515)

CONCERTS
Sixten Ehrling conducts Swedish Radio Symphony Orchestra and Chorus at Berwaldhallen tomorrow in works by Verdi, Wagner and Bizet (08-784 1800). Itzhak Perlman gives a violin recital on Sun at Konserthuset. A Penderecki Festival takes place from Nov 11 to 20, featuring more than 35 works for orchestra, chorus and chamber ensemble (tickets 08-102110)

ARTS GUIDE
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Nstherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spsin, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV
(All times are Central European Tims)
MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Finsncial Times Reports 0630
Wednesday Super Channsl: Finsncisl Timss Reports 2130
Thursdsy Sky News: Financial Times Raports 2030; 0130
Friday Supsr Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Timaa Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channsl: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky Newe: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Edward Mortimer

Rule by number not OK

Voting cannot change an ethnic identity, in Belfast or in Bosnia

My identity is "national". Yours is "ethnic". Those people over there are "tribal". No doubt there are text-books that define those three adjectives, and distinguish them by objective criteria. But in everyday usage they express a value judgment, or even a political prescription.

The word "national" implicitly asserts a right to statehood. Irish nationalists, for example, are people who are proud to be, or think they really should be, citizens of an Irish state. A "national minority" is a group whose members do not share the national identity of the majority of their fellow citizens. They may accept that situation as tolerable, but in their hearts they identify with another state – which may already exist on the other side of a frontier, or may as yet be only a dream.

If I call such a group an "ethnic minority" I am implicitly distancing myself from those aspirations. By calling someone an "ethnic Hungarian", for instance, I am saying: "This chap likes to think of himself as a Hungarian, and we must respect his culture and identity, but of course he is a Romanian (or Slovak or Serbian) citizen and there is no question of that changing."

So "ethnic conflict" is something regrettable, in which the speaker is implicitly neutral; whereas a "national struggle" is something heroic, in which there are goodies (a nation defending its right to exist and the rightful frontiers of its state) and baddies (an imperial power denying that right, or an aggressor violating those frontiers).

As for "tribes", they are definitely uncivilised. A "tribal" conflict is not merely regrettable but deplorable and irrational. If I refer to "tribal" behaviour in a European context there is a strong overtone of racism: I am saying that people who behave like that are not truly European. And if I call a group's aspirations "tribal", I imply that they need not be taken seriously.

Most English people think of Northern Ireland as tribal. They see the violence there as profoundly irrational; they make no distinction between the different groups engaging in it; they tend to see Northern Irish society and culture as producers of violence, more than as victims of it; and they have little patience with, or interest in, the political programmes of any of the Northern Irish parties.

Actually the issue in Northern Ireland is simple. It is a conflict between rival national or (if we wish to be superior and neutral about it) ethnic identities. One side feels Irish and would like to be part of a united Ireland, though it is deeply divided about how feasible that is as a political objective, and about what means are legitimate, or likely to be effective, in pursuing it. The other side is deeply confused about its national identity (British? Scots? "Ulster"?) but is absolutely clear that it is not part of the Irish nation and does not want to be part of the Irish state.

The British instinct is that the matter should be settled by a show of hands

The British instinct is that the matter should be settled in a sensible British way, by a show of hands. Thus successive British governments have said that Northern Ireland will remain part of the UK so long as that is what the majority wants, and at least twice this century referendums have been held to make sure that the majority has not changed its mind.

Ironically the same mistake was made, with even more disastrous consequences, by the European Community when it called for a referendum before recognising the republic of Bosnia and Hercegovina.

It is a mistake to suppose that such questions can be settled by majority vote, because the notion of a majority vote (and even more so that of majority rule) presupposes the prior consent of the minority to be bound by the result. In other words, both sides have to form part of a pre-existing political community, committed to stay together whichever way they go. If no such community exists, you cannot call it into existence simply by establishing that one side is more numerous than the other – a fact that both sides are usually well aware of already.

Democracy is not the same as demography. Even if, by virtue of differential birth and migration rates, the Protestants one day find themselves the minority in Northern Ireland, they will not thereby be convinced that they should accept Irish unity or that it is a good thing – any more than their grandparents were convinced by the fact that they were a minority in Ireland as a whole.

Indeed, it is probably the fear of such a scenario, rather than "blind" revenge for IRA atrocities, that motivates the growing number of murders by Protestant paramilitaries. Mowing down innocent people in a village in County Londonderry, where Catholics and Protestants mix and Sinn Féin scarcely gets a vote, makes no sense if the object is retaliation against the IRA.

But it does make sense, in a horribly familiar way, if the object is to drive the two communities further apart, persuading both that they can feel safe only in ethnically homogeneous and militarily defensible territorial blocs. "Ethnic cleansing" is the ghastly price some people are prepared to pay, or to make others pay, rather than let themselves be dragooned, even by the ballot-box, into a nation-state they do not recognise as theirs.

How wise, then, of Mr Dick Spring, the Irish foreign minister, to make the consent of the unionist community, rather than simply of a majority in Northern Ireland, one of the six "guiding principles" for an agreement which he set out last week. The Irish conflict is not about majorities and minorities; it is about the co-existence, peaceful or otherwise, of people with sharply different national identities.

Rising costs are forcing changes in the financing of different welfare systems, says John Willman

Individual ways to coin it

There is no single model of the welfare state in modern capitalist economies. Different structures reflect the differing circumstances under which countries created their welfare systems.

It is not surprising, therefore, that the pressures straining welfare states across the world should manifest themselves in different ways. Each country faces its own particular problems in funding pensions, social security and health services.

Yet in dealing with the pressures, countries with very different benefits systems are adopting similar solutions. There may be many more similarities between the welfare arrangements of countries in the future than there are now.

Welfare states fall into three broad types, according to Professor Gosta Esping-Andersen, of the European university in Florence. He describes these as the conservative, liberal and social democratic models.

The conservative model involves the sort of social insurance schemes found in countries such as Germany, France and Italy. They were introduced by governments such as Bismarck's in Germany in the 1880s, to reinforce society and family life against the disintegrative pressures of the market economy.

Social insurance schemes focus mainly on employees, funding unemployment benefit, sick pay and pensions through employer and employee contributions. Strongly influenced by the social philosophy of the Catholic church, the conservative model emphasises the role of the family, with family benefits designed to encourage motherhood. Those outside the labour market, such as women caring for children, often had few individual welfare rights.

The liberal model is based on the safety net approach to welfare, providing state benefits for those in real need. Common in Anglo-Saxon countries such as the US, Australia and New Zealand, liberal welfare states offer subsistence benefits only to those whose means fall below minimum levels.

This reflects the belief of liberal economists that generous welfare benefits will interfere with the efficient working of labour markets. It also encourages the development of private welfare systems, with better-off individuals either negotiating welfare benefits at work, or buying them from insurance companies.

The third model is the Scandinavian social democratic welfare state, in which all citizens have rights to benefits provided by the state out of taxation. Benefit levels are usually generous. They are often related to income, so that even middle-class professionals can rely on them.

This type of welfare state is typically underpinned by some sort of employment guarantee, such as that, for example, which kept unemployment low in the Scandinavian countries until recent years.

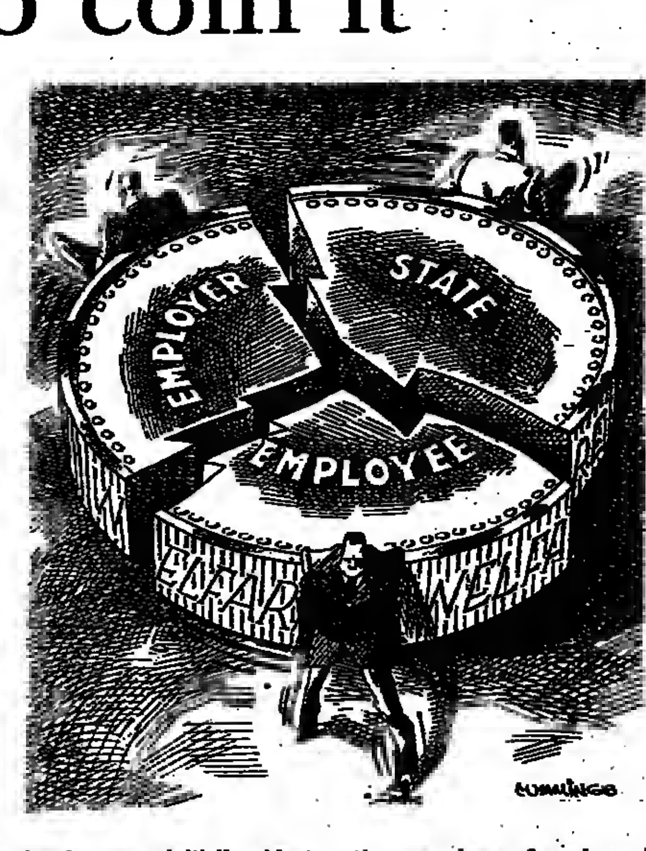
The architect of the social democratic model was Sir William Beveridge, whose 1942 report provided the blueprint for a "cradle to grave" welfare state in the UK. This would not only redistribute income between those in need and the better-off. It would also act as a savings bank, with individuals paying in at times of prosperity and drawing out when sick, unemployed or retired.

Yet shortage of funds is turning the UK social security system from a social democratic model to a liberal one. An increasing share of welfare support comes in the form of means-tested safety net benefits. These have been insufficient for the people on higher incomes to live off, encouraging private provision – particularly in pensions.

All three models of welfare state have run into problems as their costs have climbed.

The first to feel the heat was the liberal model. Although less generous than other types of welfare state, it is usually funded out of taxation. It has therefore been an early casualty of the tax revolt in which better-off voters have refused to support higher taxation to pay for the cost of a welfare state from which they increasingly opt out.

Similar pressures have emerged in the social democratic welfare state, which places enormous burdens on public funds. Countries such as Sweden were initially able to fend off taxpayer revolts by generous provision for higher-income groups. But the cost pushed tax rates to unsustainable levels, leading to the election of governments committed to reducing welfare benefits.



The conservative model is less susceptible to taxpayer pressure, since it is largely paid for by employee and employer contributions. However, employers have become concerned about the growing cost, which in Germany will next year reach almost 20 per cent of earnings for both employees and employers. Concerns over industrial competitiveness have forced such countries to launch reforms.

There is increasing pressure for people to make their own provision

Early responses to rising costs have reflected the particular characteristics of the three models. The liberal system has found it easiest to cut costs, through greater use of means-testing. Countries such as the UK, US and Australia have also tightened up the rules for claiming benefits, with longer waiting periods and closer scrutiny of claimants. Unemployed people face more rigorous requirements to retrain and seek work. With healthy private pension sectors, these countries have found it easier to increase private provision.

Scaling down the demands of the social democratic welfare state has proved more difficult. There is opposition from the losers, who include many in the middle classes. Yet the level of benefits is being reduced in these countries, and waiting periods for claiming them lengthened. Increasingly, employers and employees are expected to make contributions to the cost of benefits, as in other welfare states.

Countries such as France, Germany and Italy with conservative welfare systems have attempted to control costs by weakening the social insurance principle. Benefits are being reduced and no longer paid out as of right – the unemployed must actively seek work to qualify. Coverage has been extended to those not in employment. Some of the cost is being shifted from social insurance to general taxation.

In the different types of welfare state, common themes are emerging as these reforms progress. One is a greater emphasis on ensuring that social security systems do not impede the reduction of unemployment. Lower benefits, requiring the unemployed to undergo training, and workfare-type policies involving work in return for benefits, are all designed to boost employment levels.

Another is increasing pressure for people to make their own provision for welfare. It is still largely the Anglo-Saxon countries that offer incentives for private provision. But reductions in benefits in other countries will encourage individuals to do more to provide for themselves. So, too, will moves to restrict indexation of pensions to retail prices, which reduces pensions as a proportion of average earnings.

A third theme is a widening of the funding base for public welfare schemes. Countries which relied on employer/employee funding are shifting some of the burden to the government to control overall spending. Those that relied on taxpayers to fund welfare are asking employers and employees to pay more to reduce the fiscal pressures.

It is too soon to say that the welfare states of the advanced economies are converging on a single model of provision. But most OECD countries are looking to a mixture of welfare funding that includes contributions from the state, employers and employees. Welfare benefits will be extended to all citizens, though perhaps at less generous levels than in the past. Across the advanced economies, individuals will increasingly have to complement public welfare provision with their own resources.

This is the second article in a series on welfare states across the world. The first was published on October 25

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

IDs: don't leave home without it

From Mrs Barbara Green.

Sir, Liberty, the civil liberties group, is correct to suggest that personal identification cards could be used to discriminate against certain sections of society – those engaged in mischief. ("Plans for ID cards attacked, October 25).

For nine years I have lived as a British expatriate in societies which have required me to carry their own identification papers. Magic! ID cards ensure a swift passage through immigration; facilitate bank transactions; produce registered mail from behind Post Office counters; smooth (as far as is possible) relationships with the tax man; and even provide proof of ownership for the dog's own, health-related, ID card.

IDs offer evidence of legal entry and authorised residence, and satisfy policemen who use spot checks to "discriminate" against criminals, drug traffickers and illegal immigrants.

Resent my ID card? No. I wouldn't leave home without it.

Barbara Green,
Buzon 162,
Mijas-la-Nueva,
Mijas 29650,
Malaga, Spain

Chunnel link needs bold move

From R M Bostock.

Sir, There can be no doubt that the planned high-speed rail link between the Channel tunnel and London could be a showpiece for the government's initiative of attracting private capital to public infrastructure projects ("Chunnel link", October 29).

We believe it is important for the government to come up with a scheme for introducing private sector entrepreneurial skills, management disciplines and capital into this transport infrastructure project at an early stage.

In October 1991, the secretary of state announced the government's preference for the route on the lines put forward by Ove Arup & Partners; this was a route approaching central London from an easterly direction. At the same time he requested British Rail to develop this route to a standard at which he could safeguard it. The route corridor has now been identified and largely accepted through a successful public consultation process carried out over the past six months by Union Railways, a subsidiary of British Rail.

For the high-speed rail link to progress without delay now requires some kind of joint venture between the private and the public sectors along the lines outlined by the Treasury in its March 1993 guidance notes. This has to be the most appropriate vehicle for the government to take the project forward through its parliamentary process. Such an arrangement would require the government to shoulder the political risks and the private sector participant to develop the business aspects. These would include proposals for full financing and would include the form and amount of the public sector contribution. All the project risks other than the political ones could be carried by the joint venture. The government's equity interest would be disposed of at the time of full financing after Royal Assent.

The challenge facing the Treasury is to devise a method for selecting an effective and credible private sector participant which would create strong ownership of the project with the government. Such a venture should be put in place now as the project goes to parliament in March 1994. Without a bold initiative, doubt will remain about the effectiveness of the government's intention of attracting private capital to public infrastructure projects.

R M Bostock,
director,
Ove Arup & Partners,
13 Fitzroy Street,
London W1P 6BQ

The fight to close an unacceptable pay gap

From Ms Meriel Schindler.

Sir, Your article, "Landmark equal pay ruling is welcomed" (October 28), highlights the immense difficulties faced by women who seek to bring equal pay cases. It is surely unacceptable that Dr Pamela Enderby has had to fight eight years even to establish her right to have her case heard by an industrial tribunal. Every year, women lose out because of sex bias in employment.

Women's work remains undervalued and underpaid. Across the board, women earn only two-thirds of a man's average wage. Women continue to earn less than men in both low-paid, low-status jobs and higher paid jobs. Equal pay legislation has been in place for more than 20 years, yet the pay gap persists, encouraged by a government which chooses inactivity over equality.

Meriel Schindler,
pay equity project,
c/o Liberty,
21 Tabard Street,
London EC1

Arguments for auditors' limited liability do not hold water

From Mr John A Newman.

Sir, The government is facing pressure to limit the liability of auditors within the UK. This, it has been suggested, might be achieved by allowing an auditor to agree with the company and shareholders a fixed-figure limit for liability by repealing Section 310 of the Companies Act 1985.

The justification for this seems to be, first, the large number of big claims made in the US; second, the effect this has had on the global indemnity insurance market; and, third, that the offshore mutual insurance companies formed by the Big Six or Big Eight have been denuded by claims. These arguments do not hold much water on inspection. First, the particular legal structure and litigious nature of the US makes its experience inappropriate for an EC member state. Second, the professional indemnity market does take account of national differences, and, third, as the financial status of the mutual insurance companies is not publicly available, the validity of the last argument is not questionable.

Furthermore, the office of auditor is not like other contractual providers of services. Dry cleaners may limit damages that can be awarded against them on ruination of your Armani suit, but dry cleaners are not indirectly regulated by the Department of Trade and Industry, and do not owe their existence and income to government itself. The licensed monopoly on the function of auditor is a privileged status for which the government should continue to insist upon unlimited liability. A cap would devalue the judgmental nature of the "true and fair" view.

When government interferes in the market, the effect on competition should be reviewed. Would the quality and the level of service be helped or hindered by a cap on audit liability?

The lack of a cap means one of the major firms could become insolvent leading to a major shakeout of that firm's clients and the ruination of the partners. Such an insolvency might be beneficial since medium-sized and other specialist players might be encouraged to enter the market for audit of listed companies. The collapse would also encourage the unbundling of services, and perhaps the level of standards of the remaining participants in the market would improve.

Proponents of capping think that the more risky type of enterprise might have set for it a high limit which would reflect the danger. The current, somewhat random basis of charging audit fees suggests this is wishful thinking. It seems to me that, the riskier the firm, the more likely the limit would be set at the minimum level.

In conclusion, my feeling is: "If it ain't broke, don't fix it." The present system has lasted well enough for more than 100 years, and there seems to be no real pressure for change from the business community or from the public. Parliamentary time could be well spent on simplifying legislation.

John A Newman,
Chantrey Vellacott,
chartered accountants,
Russell Square House,
10-12 Russell Square,
London WC1B 5LF

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Wednesday November 3 1993

Steady Eddie at the bank

MR EDDIE George, appointed this summer as governor of the Bank of England, is working hard at his reputation. The new governor has assiduously cultivated an image as an inflation-hater. But words alone will not persuade the financial markets to forget the fact that his tenure as the Bank's deputy governor coincided with one of Britain's two most destabilising inflationary booms since the second world war.

Not that Mr George was personally responsible for the policy errors of the late 1980s. But the scars clearly run deep, as does his determination not to see the same inflationary mistakes repeated. Hence his warning, at the end of last week, that a further cut in interest rates might not be compatible with the government's target of keeping underlying inflation below 4 per cent a year. Now that the UK has a golden opportunity to lock into low inflationary growth, he is not going to see the opportunity thrown away.

Curiously, the same defensive caution does not shine through the pages of the Bank of England's latest inflation report. The Bank has clearly gained in stature over the past year, while the quality of its quarterly inflation report has boosted its analytical reputation in comparison with the Treasury's monthly monetary report. But the Bank's report does not, at least at first sight, appear to constitute the brief from which Mr George was reading last week. If the government was considering a further cut in interest rates to coincide with the Budget, it will find little in the report to deter it.

The inflationary outlook, the report suggests, looks promising. Labour market pressures are subdued, inflationary expectations have eased substantially since the early summer, monetary growth is consistent with the government's inflation objectives and there is room for several quarters of above-trend growth before the economy will show any signs of overheating.

"There is a slight possibility that in the first half of next year inflation will rise above the top of its target range," the report acknowledges, citing the end of summer price discounting, the effects of increases in indirect taxes and the introduction of the community charge. But, "excluding those taxes, inflation is expected to start falling in early 1994, and could reach a level close to the middle of the target range in 1995".

The Bank's analysis highlights two risks: first, that the government will not take sufficient action to reassure bond markets by closing the fiscal deficit; and, second, that tax rises to close the deficit will prompt wage-bargainers to seek compensation and thus feed inflationary expectations. Reassuring the financial markets on the deficit is chancellor Clarke's territory.

Further fiscal tightening is almost certainly necessary, and the chancellor would be wise, both economically and politically, not to delay the medicine. But if he is considering a cut in interest rates to ensure that the recovery is not aborted in the process, then, with the necessary caveats about being prepared to react to future inflationary pressure, the report effectively gives him a green light.

Presumably Mr George agrees with the Bank's analysis. So his statement last week demands a more subtle interpretation. The governor is surely correct that a cut in interest rates, without a substantial fiscal tightening, would be a grievous error. But a cut in interest rates, balanced by tax increases and combined with a commitment to raise rates if wage inflation starts to pick up, would not jeopardise Mr George's anti-inflationary objectives. It is this option that Mr Clarke should take.

Private motors

THE LATEST problems with the proposed Renault-Volvo merger raise important points of principle. In effect, the French government and Volvo management are saying to the Swedish group's shareholders: trust us. We will conduct the merger in a rational way. We will then privatise the result as soon as possible.

Volvo's owners may be forgiven for hesitating: doubly so, given the French government's damaging *volte-face* last week over Air France, whereby it appeared to duck commercial realities in favour of political expediency.

From the Swedish viewpoint, consider what is at stake. The French government argues, with some show of reason, that merger must come first, privatisation second. Until the combination has been put in place, after all, it is hard to set a value on the operation. But this necessarily means the process will be at the mercy of politicians. This is not simply a matter of whether one company's interests will be preferred to another's: that might happen in any takeover. It is more a question of how far the merger will be structured in the interests of votes rather than profitability.

The French could argue that the industrial realities point the other way. Renault has undergone severe cutbacks since the mid-1980s. Between 1988 and the end of last year, it reduced its workforce by 32,000. Granted, non-French workers bore the brunt of these economies, but the Swedish unions are apparently anxious enough about their future to carry on backing the deal regardless.

The existence of a French golden share, which could in extreme cases reduce Volvo shareholders' voting rights, is not calculated to soothe Swedish sensibilities. But with a little good will, and some more concrete assurances from the French side, none of this need be insurmountable. The deal, after all, has one crucial argument in its favour: that its origins lie in industrial rather than political logic.

This bears out a wider point: that the whole Renault-Volvo argument shows why privatisation in Europe has become such an unstoppable force. Across a broad range of industries – cars, telecommunications, computers, chemicals, energy – mergers and joint ventures are becoming essential.

The reasons are various: recessionary pressure, the rising cost of R&D, or – as in telecoms – the changes brought by deregulation. In each case, nationalised companies – awkward in their structure, doubtful in their motivation – tend not to get invited to the party. The message for them is a simple one: privatise or perish.

Handle with care

WHEN NORTH Korea threatened to become the first country to pull out of the Non-Proliferation Treaty last March, alarm bells rang from Seoul to Washington at the prospect of a nuclear arms race in east Asia. Although Pyongyang withdrew its threat three months later after talks with the US, the alarm about its purported nuclear ambitions is far from over. On Tuesday, the UN General Assembly – by 140 votes to one – expressed concern that North Korea is still refusing to allow full monitoring of its nuclear facilities by the International Atomic Energy Agency. Today, Mr Les Aspin, US defence secretary, is in the South Korean capital to discuss what to do next about suspicions that North Korea is processing nuclear fuel into an illegal stockpile of plutonium.

Pyongyang's defiance presents the world with a tricky dilemma. On the one hand, it is vital to the credibility of international efforts against nuclear proliferation that the IAEA be allowed to conduct unlimited spot inspections of North Korean facilities. If not, suspicions that it is violating NPT commitments will persist, with the potential to disturb the regional strategic balance.

On the other hand, it is hard to see what more the UN can do to force rapid North Korean compliance. Short of a lightning bombing raid on suspect facilities – a course so perilous that no one is seriously contemplating it – economic sanctions are the weapon most frequently mentioned. But a sanctions resolution would almost certainly fall to a Chinese veto in the Security Council. And in any case, tightening the international noose on what is already a pariah state would be at least as likely to result in greater instability as to bring Pyongyang's paranoid leaders to their senses.

Resolving the issue is complicated by the fact that no one can be certain whether the North Koreans have any realistic prospect of building a bomb in the near future, or what they ultimately want. It seems unlikely that Pyongyang has stirred up the nuclear question purely for its own sake. More likely, it is seeking, in return for opening up its facilities to inspection, some concessions from the US: diplomatic recognition to match Russian and Chinese recognition of South Korea, perhaps, combined with cancellation of what Pyongyang sees as aggressive US military manoeuvres in the south.

If that is the real aim, it suggests that the US, Japan and other interested parties would be right to continue with their strategy of attempting to negotiate with Pyongyang, rather than piling on more direct forms of pressure.

"They'd sell off bits of the White House lawn for a vote if they could"
– Jim Jontz, head of the Fair Trade Campaign against Nafta

"It's one president, all the living former presidents, 41 governors, 14 Nobel Laureates and 284 economists versus Perot, Buchanan and Brown; it's your choice"
– Mickey Kantor, US trade representative

Jurek Martin and Nancy Dunne say the stakes are high in the battle to guide Nafta through the US Congress

Party loyalties do not apply

Barring the unforeseen, the latest addition to the matriarchy of all political battles will be finally decided on November 17 when 258 Democrats, 175 Republicans, and one independent in the 435-member House of Representatives (there is one vacant seat) vote on whether to approve the North American Free Trade Agreement linking the US, Mexico and Canada on January 1. A simple majority of 218 is all that is needed. If it passes, the Senate will almost certainly follow suit; if it fails, the upper chamber does not have to act.

The stakes are enormous – for the political credibility of President Bill Clinton early in his term and for the legacy of President Carlos Salinas as he nears the end of his, for the evolution of the Mexican and US economies, and for a global trading structure in which a Uruguay Round agreement scheduled to be reached by December 15 may be unattainable if Nafta goes down.

Conventional party lines are irrelevant in the intense retail political war now going on in pursuit of the 218-vote nirvana. More Republicans, perhaps as many as 120 according to congressman Jim Kolbe of Arizona, far fewer according to Mr Jim Jontz, a former congressman from Oklahoma, will vote for than against, not least because the original Nafta was negotiated by the Bush administration. This leaves Mr Clinton needing at most 40 per cent of his own party to triumph – and therein lies the problem.

For the Democratic coalition that just – by one vote – sustained the president in the great budget battle against unanimous Republican opposition, is in tatters. In July it was the "new" Democrats, especially moderates from the south, who deserted Mr Clinton while the old liners – labour, liberals, blacks – held their noses and held fast. On Nafta, the positions are in good measure reversed.

According to Ms Lori Wallach, a leading co-ordinator of the "anti-" campaign, the "no" camp already numbers 208-210 "including some leaners". Bill Daley, drafted from his Chicago domain to direct the "yes" campaign, disputes this estimate, counts about 195 in favour and says that some 55 Democrats are still undecided. Mr Jontz disagrees, reckoning there are now more Republicans than Democrats on the fence. He thinks the freshman class – 66 Democrats and 48 Republicans – is particularly resistant to Nafta.

If Nafta is defeated it may impede a Gatt deal: clockwise, Canada's Jean Chrétien, Carlos Salinas and Bill Clinton

Both sides bail and blast each new convert. Democrat John Dingell of Michigan came out for "noes" this week, but Mr Daley counters that he could never understand why anybody thought he would do anything different. Ms Wallach is equally dismissive of the impact of the "yes" declarations of Democrats Joe Kennedy from Massachusetts and Esteban Torres from California. The latter, she insists, probably could not carry the 18-member Hispanic caucus.

The politics of Nafta have produced uneasy dalliances among political heavyweights. In one bed lie the president, the Republican leadership, including Newt Gingrich, a fervent conservative, the Senate majority leader, the Speaker of the House, most leaders of big business, and some prominent environmental groups: in the other can be found the House majority leader (Richard Gephardt) and most of the Democratic House whips, including David Bonior of Michigan, the chief anti-Nafta strategist, plus Ralph Nader, the consumer advocate, most of the labour unions, Pat Buchanan, the right-wing ideologue, and Ross Perot, last year's independent presidential candidate.

Ms Wallach, who portrays the Nafta divide as one between "populists and the elites", says there is little top-level contact with Mr Perot, who first spoke of the "giant sucking sound" of US jobs going south to Mexico, but that his troops offer access to conservatives and small businesses. Mr Daley says that "Perot's credibility is diminishing because he has become a politician", an assessment borne out by several recent opinion polls.

Both sides agree that the role played by President Clinton himself is crucial. "He is my number one worry – never underestimate the power of the presidency," says Ms Wallach. He got off to a slow start. In the summer he was consumed by the budget, and more recently distracted by healthcare, Haiti and Somalia. Meanwhile the opposition was off and running early.

The administration pinned a lot of its midsummer hopes on Nafta's "side agreements", covering Mexican environmental and labour laws and guarding against import "surges", meeting most objections. But these were only completed in mid-August, later than planned, and were only partly successful. Six prominent US environmental groups came out in favour, but union opposition became entrenched. Most important, Congressman Gephardt, whose backing could probably have ensured passage, declared he was not satisfied.

Mr Daley insists it does not matter that the president started late because "in politics, decisions are only taken in the last few days". Whatever the merits of this argument, there is no questioning that the pro-Nafta campaign is now in full swing, with plans that Mr Clinton himself do little other than argue for the agreement in the next two weeks.

Every day brings a new media show. Last week saw Products Day on the White House lawn, a display of 175 goods that would benefit from Nafta. Last weekend the president went to Boston to maintain that JFK would have been pro-Nafta. On Monday he appeared at an electronic "town meeting" with members of the American Chamber of Commerce. Later this week he is in Louisville, Kentucky. On Sunday an hour-long TV interview is scheduled.

About twice a week he has 15-20 congressmen in his office for a Nafta exhortation. He works the phones constantly, and all members of his cabinet are fully engaged, sometimes inventively. Mr Kantor's latest pitch is that Japan is against Nafta and would, along with Europe, seek to profit from its defeat. The Nafta "war room", operating out of the Old Executive Office building next to the White House, co-ordinates it all and makes sure that businessmen keep up the pressure on individual members.

Certain actions, both substantive and personal, get taken with Nafta in view. Last week's creation of the North American Development Bank, with its funds available for border clean-up, obviously helped Congressman Torres come off the fence. At the other extreme, Congressman E Clay Shaw, a Florida Republican, is demanding that the administration put pressure on Mexico for the extradition of an accused rapist. Mr Daley says: "We have made our views known to the Mexican government on this, though they knew about it already."

All this activity is matched with fervour and skill by the other side. Ms Wallach claims to have kept a lid on vote switching. She points out that Congressman Kweisi Mfume from Maryland, leader of the 38-strong black Democratic caucus previously so loyal to Mr Clinton, is helping Mr Bonior garner votes against Nafta, and that only one black congressman has come out in favour. On broader policy issues, both camps were bombarding the media with their respective spins after last week's Canadian election result. "They've thrown everything at us, but it hasn't made a difference so far," she insists.

With two weeks to go, neither side will publicly admit the possibility of defeat. Mr Daley says he will not sell the White House lawn, but seen crossing it yesterday was a gaggle of living Nobel Laureates, including Henry Kissinger, last seen being nice to Mr Clinton on Martha's Vineyard in August. The grass seemed in place.

On opposite sides of the great divide

Dave McCurdy: past versus future

Marcy Kaptur from Ohio and Dave McCurdy of Oklahoma might seem prototypical Clinton new Democrats, write Nancy Dunne and Jurek Martin.

She is 47, the same age as the president, a House member since 1982, while he is 43, and from the class of 1980; like the president both studied at British universities, she doing town planning at Manchester, he economice at Edinburgh; she is from a union district, be from a union family; and both are ambitious: she has her eye on the Senate next year, while he has already considered running for the presidency and last year promoted himself for a post in the Clinton cabinet. Yet Nafta divides them absolutely.

Ms Kaptur, a leader of the opposition, regrets having to fight Mr Clinton. "It would have been nice after 10 years here to have had a Democratic president who agreed with me on the most important issue in my district. Nafta, though, is a life and death issue to us," she says, citing the job losses in her Toledo constituency.

She is proud of being a liberal and resents being called a protectionist. "Trade can bring freedom," she argues, "but it can also bring exploitation. If people do not have fair wages, free elections, rights of assembly, a judicial system with fair trials, you have exploitation – and we will be a party to it." She sees nothing wrong with hemispheric free trade, so long as it is linked to democratic reforms.

Her criticism of Mexico goes far beyond its democratic shortcomings. On two recent visits she was shocked by what she saw. "They have no running water, no heat in winter, no electricity unless they have batteries." Once, she says, Mexican government agents trailed a delegation of congresswomen on a tour south of the border and nearly ran one of them down.

To Dave McCurdy, a border state moderate like Mr Clinton, the Nafta debate is all about the past (ageing, uncompetitive industries) versus the future (a high-skilled, high-wage economy). "The problem is that the protectionists, isolationists and xenophobes who are building the case against it are really basing it on fear of change and the unknown."

Combative by nature, he was sufficiently unafraid in September to raid the home turf of the Nafta opposition – a local General Motors plant – to hand out leaflets. "The management loved it. I'm not sure the workers did, but they'd been getting their information only from one side." Ross Perot ran strongly in his district last year.

He has travelled a lot to South America, where he sees democracy taking roots, "though some of the sprouts are fragile". He is impressed by changes in Mexico. "Ten years ago it was an anti-US command economy, socialist in nature." President Carlos Salinas "has taken on the old system with a great deal of courage. He deserves to be rewarded for that."

He understands why some fellow Democrats find it hard to support Nafts, especially after the great budget battle this summer. "Some caught a lot of grief back home and they're tired of explaining tough votes. But there are a few of us who are committed to these free trade principles."

Marcy Kaptur: life and death issue

OBSERVER

The foaming Tiber

■ It was a visibly shaken Carlo de Benedetti who made his way yesterday to a grilling in Rome's Regina Coeli prison on the shores of the Tiber.

The Olivetti chairman, fighting a separate legal battle over a six-year sentence over his role in the collapse of Banco Ambrosiano in the 1980s, faced questions about kick-backs to win public sector contracts, for which the group allegedly paid about L10bn.

De Benedetti suffered the first embarrassment earlier this year after being forced to backtrack on previous denials that payments had been made; now, after the transfer of inquiries from magistrates in Milan to those in Rome, comes the stigma of an interrogation in gaol.

But at least the venue is appropriate. De Benedetti's inquisitors are holding him in a prison that was once a convent – and both the investigating magistrate and the public attorney who want to lead him to the confessional for his putative sins are women.

Phone home

■ Hotels all over the world routinely over-charge guests for the cost of telephone calls. But it seems that the Montreux Palace Hotel in Switzerland has gone one better; it recently had the nerve to charge SFr10 for placing an international collect call.

Then again, perhaps that is not too surprising. Was the Montreux Palace not the venue almost half a century ago of the inaugural meeting of CEPT, the club of European telecommunications monopolies, which have been ripping off telephone users for years . . .?

Horse-trading

■ Why should an Irish horse-trainer be standing in a bar in Melbourne reciting verses from *A Bush Christening*? Answer: It was Dermot Weld's damage-limitation exercise in the wake of Vintage Crop winning the Melbourne Cup, an Irish victory for the first time in the cup's history.

Vintage Crop, a 14-1 outsider, trained by Weld at The Curragh and owned by Michael Smurfit, the Irish paper and packaging impresario, won by three lengths. To add insult to Australia's injury, Smurfit, who now lives in Monte Carlo, was not even in Melbourne to collect the A$2m winnings, though his son and other members of the family were present.

Still, trainer Weld, who had obviously kissed the Blarney stone, impressed his audience with his enthusiasm for Australia – begun

'You should have seen him before be became European'

as a child when he was given a book of Banjo Paterson's verses, including *The Man From Snowy River*. Meanwhile, in time-honoured tradition, business life ground to a halt as all eyes turned to the finishing line. Who knows if it was the Irish victory, but the stock market closed lower for the first time in a week.

Just the ticket

■ The city of Washington DC, whose depleted coffers are just a little fuller today after the Israeli embassy forked out $63,000 in parking fines, has Senator Jesse Helms to thank. For it was the ultra right-winger from North Carolina who attached a rider to this year's US foreign aid bill docking the amount of unpaid fines, plus a 10 per cent penalty, from the assistance given to all recipients.

Presumably the fact that Israel, the largest beneficiary of US aid, was the first to pay up, was no mere coincidence. But, unfortunately for the impoverished city, it is not the worst parking fine offender by a long chalk. That accolade is reserved for the Russian embassy – even if much of its $3.8m bill was clocked up by Soviet diplomats in the old days. The Russians' excuse is that they are awaiting a new DC parking lot, given Moscow did the honours for the US embassy last year.

Next in line comes the Nigerian embassy, which is incensed at its $77,830 bill. "We do not park on fire hydrants," Nigeria's press attaché Mohammed Sani complains. "The bulk of the tickets are for expired meters. We are not parked at places wrongly. There is just nowhere to park." Obviously the same problem applies in London. In 1992 Nigerian diplomats boasted 167 unpaid parking tickets, making them the fourth worst offenders, after Turkey, Russia and France.

Shopaholics?

■ Japanese salarymen, believed to beat world records for workaholicism, may soon be legislated into relaxing more often.

Some members of the new Japanese government think that too much work could be a source of economic as well as personal exhaustion. So ministers agreed yesterday to study proposals by Koshiro Ishida, a cabinet member heading the management and coordination agency, to change the dates of national holidays to Mondays or Fridays.

The aim is to encourage people to take long weekends more often, so that they spend more money – badly needed in this recession – and "enrich their lifestyles" Ishida says. Japanese staff would never dream of of using even a mid-week public holiday as an excuse for an extra long weekend. Hence the need for government action.

However do not expect any progress today. For this is culture day, when people are encouraged to refresh their spirits with a good dose of art. But be sure all will be back to work on Thursday.

Illuminating

■ The director of group public affairs at a UK multinational acknowledges that a PR man may not be needed to change a light bulb (vide Observer yesterday), but seeks to justify his existence by highlighting the need for such expert services when pointing the journalist in the direction of the light switch.

FINANCIAL TIMES

Wednesday November 3 1993

Finance ministers get together to promote 'crucial' economic convergence

France, Germany plan for Emu

By Judy Dempsey in Berlin and David Buchan in Paris

GERMANY and France yesterday jointly presented the broad outlines of plans to bring their economies together in the planned European monetary union by the end of this decade.

The joint presentation of the plans was designed to give some public impetus to economic convergence, prescribed by the Maastricht treaty which came into force on Monday.

The plan was released after a meeting of the Franco-German Economic and Financial Council in Berlin, comprising finance and economics ministers and central bank presidents from both countries.

Mr Theo Waigel, German finance minister, said plans to converge the two economies by 1996 "was crucial for the success of economic and monetary union" among the European Community member states.

French and German finance ministers plan to give more details of the plans to their EC colleagues at a general discussion of European economic convergence on November 22.

Germany has made little change to its earlier plan to bring its budget deficit, currently the equivalent of 4 per cent of gross domestic product, to within the 3 per cent guideline laid down in the Maastricht treaty by 1995. By contrast, Mr Edmond Alphandéry, the French economy minister, and Mr Nicolas Sarkozy, the French budget minister, set out for the first time yesterday their country's medium-term goals.

Mr Sarkozy said France intended to reduce its budget deficit, around 4.5 per cent of GDP, to about 2 per cent by 1997. The only previous indication which prime minister Edouard Balladur had given of his government's medium-term planning was a promise to reduce public borrowing to 2.5 per cent by 1997.

French and German ministers agreed that their economies should aim for 3 per cent growth from 1995 onwards. French ministers said they were assuming that French growth would be somewhere between 2.8 and 3.5 per cent from 1995 on. They have predicted that the French economy will contract by 0.8 per cent this year, but expand by 1.4 per cent next year.

German growth is forecast at minus 1 per cent this year and plus 1.5 per cent in 1994.

Mr Alphandéry said France and Germany would together aim to reduce inflation, and particularly curb the budget deficits in order to meet the criteria for convergence. He reiterated the French government's intention to cut the deficit to FFr300bn in 1994 from the current FFr317bn.

Mr Sarkozy said France, which had recorded an annual inflation rate of 2.3 per cent in September, was already showing signs of stability.

However, he and Mr Waigel agreed that closer co-operation was needed on the definition of statistics, and the way they are assessed, to move towards convergence. Both ministers said their countries should meet the convergence criteria by 1996.

According to Maastricht EC governments would make their first assessment of whether their economies are ready for monetary union in late 1996.

US data reinforce growth predictions

By George Graham in Washington

GOVERNMENT economic data released yesterday show the US economy to be gaining strength, lending weight to predictions of solid growth in the next two quarters.

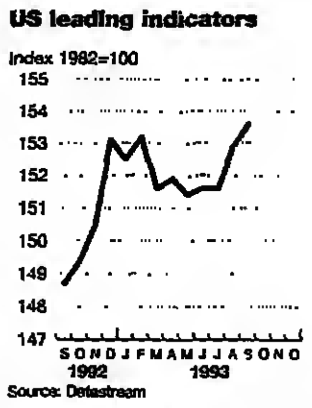
The Commerce Department's index of leading economic indicators showed a rise of 0.5 per cent in September after a 0.9 per cent gain in August.

The leading index, designed to predict movements in economic activity, climbed to reflect an expanding money supply, buoyant orders for consumer goods, higher share prices and increased demands for building permits.

The index fell in the first half of this year, stabilised in June and July, and climbed in August and September.

The Commerce Department said sales of new homes rose by 21 per cent in September to their highest level for seven years. New home sales jumped to an annual rate of 762,000, 13 per cent higher than a year earlier.

US leading indicators



Source: Datastream

Home sales have benefited from mortgage interest rates at their lowest level for 25 years. Rates averaged 6.91 per cent in September and have since slipped a little lower.

Most regions showed large rises, with sales rising 28 per cent in the south, 24 per cent in the mid-west and 15 per cent in the west. Only the north-east showed a drop in sales of 7 per cent. Last week, the National Association of Realtors said sales of existing homes rose in September.

Mr Ed Yardeni, economist with brokers C.J. Lawrence, said this pace of home sales was probably not sustainable, and the rate would be likely to decline in October. "Nevertheless, housing activity is clearly stronger, and will add to economic growth this quarter," he said.

Economists said both the index of leading economic indicators and the home sales statistics were consistent with forecasts for stronger growth in the second half of the year.

Initial government estimates of GDP showed growth in the third quarter at an annual rate of 2.8 per cent, and some economists now foresee the economy expanding at a rate above 4 per cent in the fourth quarter, before subsiding in the new year.

"Our current fourth-quarter estimate is 4.2 per cent, and the risk to that number is probably on the upside," said brokers Merrill Lynch.

Mr Allen Sinai, chief economist with Economic Advisors, a Boston consulting firm, is more cautious, predicting growth around 3.0 per cent in the fourth quarter and lower growth in the first half of next year.

But Mr Sinai says the economy is now showing a "functional" recovery, rather than the statistical recovery of the last two years, with growth exceeding the trend of 1.8 per cent that occurred between mid-1988 and mid-1993.

BCCI liquidators seek rise in compensation from Abu Dhabi

By Andrew Jack in London

LIQUIDATORS to the collapsed Bank of Credit and Commerce International are planning to move swiftly to negotiate a higher contribution for creditors from the government of Abu Dhabi, the majority shareholder in the bank.

They plan to push for payments higher than the originally negotiated $1.7bn to be agreed early next year in an effort to prevent complex litigation which could take many years and leave hundreds of thousands of creditors with little prospect of compensation.

It also emerged that the liquidators have negotiated a tax refund from the UK Inland Revenue of about £20m overpaid by tha bank. The claim relates to incorrectly stated figures and tax deducted at source over several years as well as interest and was paid out in the last few weeks.

The liquidators' latest action follows the surprise decision by the Luxembourg courts last week to uphold an appeal by three creditors against the agreement between the liquidators and the government of Abu Dhabi.

In preliminary meetings this week the liquidators have tentatively decided not to appeal against the ruling. Neither do they favour the prospect of suing Abu Dhabi in the search for funds for creditors to BCCI, which was closed in July 1991.

The strategy has been developed in advance of a full meeting today and Thursday of the liquidators to the bank's principal companies in England, the Cayman Islands and Luxembourg.

Mr Brian Smouha, Mr Georges Baden and Mr Julien Rodin, the three liquidators to the main BCCI holding company in Luxembourg, in any case face difficulties in making an appeal because they are officials appointed by the courts.

They are still awaiting written judgment from last week's appeal, but seem to have ruled out a possible option from Judge Raul Gretsch to re-submit their proposals in a modified form.

The Abu Dhabi government said its position remained unaltered and it had no plans to increase its offer agreed with liquidators in February last year.

This would have provided a contribution of at least $1.7bn to creditors in exchange for them waiving rights to sue, and would have allowed a payout of 15p in the pound next year. Abu Dhabi has an estimated $2.2bn in preferential claims deposited with BCCI and could counter-sue the bank to recover the money.

De Benedetti faces jail

Continued from Page 1

magistrates in handling the political corruption scandal. Some observers have suggested that the Rome magistrates, previously attacked for dragging their feet compared with their northern counterparts, are now trying to show their commitment to exposing corruption in high places.

It has even been suggested that politically motivated magistrates in Rome have used a leading businessman such as Mr De Benedetti as a scapegoat to get back at Milanese colleagues who have tarnished the reputations of so many of the capital's established politicians.

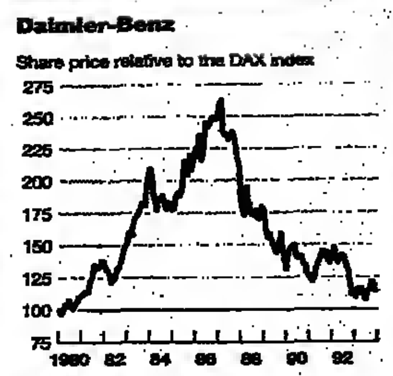
How long Mr De Benedetti will stay in jail remains unclear. A number of senior businessmen investigated in Milan have evaded extended incarceration by striking informal deals with investigating magistrates and providing full confessions.

THE LEX COLUMN

Daimler's blood and iron

FT-SE Index: 3164.1 (-0.3)

Daimler-Benz



Source: Datastream

There is clearly plenty of pain to go round at Daimler-Benz. Mr Edzard Reuter, the company's chief executive, admitted as much when he said that shareholders as well as staff would have to suffer the pangs of restructuring. At one level that hint of a dividend cut might be viewed as a realisation of the depth of Daimler'a difficulties. Yet the reasons for Mr Reuter's statement are perhaps themselves a concern. If his purpose was to soothe opposition from the workforce, then he may not have yet persuaded the staff that radical surgery is needed. Having allowed costs to drift for too long, Daimler can hardly afford protracted internal debate or lengthy industrial action.

Most of Daimler's markets remain depressed. Airline losses may be slowing, but new aircraft production is still being cut – particularly at Airbus – and defence spending continues to fall. AEG consumer goods business is wilting and its ICE train is losing out to the French TGV in export markets. Daimler-Benz cars are too expensive to produce compared to the competition. All of Daimler's operations suffer from the strength of the D-mark.

Besides, the company is hardly alone in its effort to cut costs. Its Japanese competitors face equally hard markets and are busy retrenching too. The risk is that most of the efficiency gains will be ceded to customers in lower prices. Even if the plan works and the company can get back to peak earnings of around DM 70 a share by 1996-97, the shares hardly look cheap. That, and a lower payout, should give investors pause for thought if the rights issue hat is passed round next year.

Muramoto

The Tokyo stock market barely flinched in its first trading session after the failure of Muramoto Construction, an unlisted company but one with bank debts of an estimated Y590bn. Its insouciance may be partly explained by the fact that Muramoto's debts have been parcelled out evenly among its 50 or so lenders, so that none of them is in serious danger despite the write-offs.

Yet it is worrying that such a small company, only Japan's 34th construction group, can produce a collapse nearly half the size of Olympia & York and with so little warning. One can only guess at the liabilities hidden in contractors many times Muramoto's size. Clearly, Japan's banks need to root out problem loans and write them off fast, instead of seeking to disguise them in their accounts as they have done so often in the past.

Present incentives are inadequate. The Co-operative Credit Purchasing Company, which enables banks to speed up tax write-offs by selling bad loans and buying them back at a loss, is only attractive to larger banks with cash to spare. Financial market confidence also depends on support for smaller fry, like Nanto Bank, the regional lender which is among the most exposed to Muramoto. Perhaps the Bank of Japan should extend additional support in tha form of cheap loans, or Japan's notoriously tight-fisted tax office could offer more generous tax treatment on write-offs.

MEPC

MEPC's shareholders may think it odd that just as the UK property market starts racing away with itself their company decides to buy two shopping centres across the Atlantic. Yet, MEPC is chiefly funding the deal with paper. Thankfully, it is retaining most of the proceeds from its recent £222m rights issue to refurbish its UK portfolio and make selective acquisitions.

Moreover, MEPC sees scope to lift the shopping centres' yield to more than 9 per cent, increasing their capital valne. It suggests this can be achieved by raising leasing levels above 95 per cent and marketing the centres more effectively. Any pick up in California's dull economy would also help, given that rental payments are related to turnover. Yet many will doubt the ability of an overseas investor to make capital gains in the ferociously competitive US property market. The US has certainly proved a graveyard for many UK investors.

But if MEPC's shopping centres do disappoint they are unlikely to inflict much harm. The share issue will represent less than 6 per cent of its enlarged equity base. Besides, MEPC's shares – like those of most other property companies – are currently so highly rated that it would be a challenge to buy anything that did not enhance earnings and assets per share. That raises the suspicion that similar deals may follow. But it will be difficult to find many pension funds willing to sell properties at a discount to net asset value in exchange for paper which trades at a premium.

UK economy

The Bank of England has a delicate task in presenting its latest views on inflatinn. It would not presumably wish to risk a row with the chancellor if he asks for interest rates to be cut in connection with the budget. But the underlying rate of price rises has accelerated over the past three months and the bank has to admit to the chance of the government's inflation target being breached as a result of tax changes due to come into effect next April. So it must also be concerned about its credibility in the fight against inflation.

The report gets round this dilemma by forecasting that inflation will start to fall again in the middle of next year and that any rise meanwhile should be regarded as just a blip. That way the option is left open for a budget rate cut to offset any fiscal tightening, even if this goes against basic instincts. The bank's longer term forecasts, which show inflation slap in the middle of its target range, lead to the claim that rates are about right where they are.

Well, it would say that, wouldn't it? The main worry is that of preventing a higher headline rate translating into higher inflationary expectations with consequent pressure on wages. The bank admits that a higher real exchange rate as a result of interest rate cuts abroad would help reduce inflationary pressures. It follows that it would be reluctant to do anything which might cause the exchange rate to wobble. Since Britain's manufacturing base is so atrophied, it might easily think any possible contribution to growth from exports boosted by a lower exchange rate is not worth the risk of higher import prices.

FT WORLD WEATHER

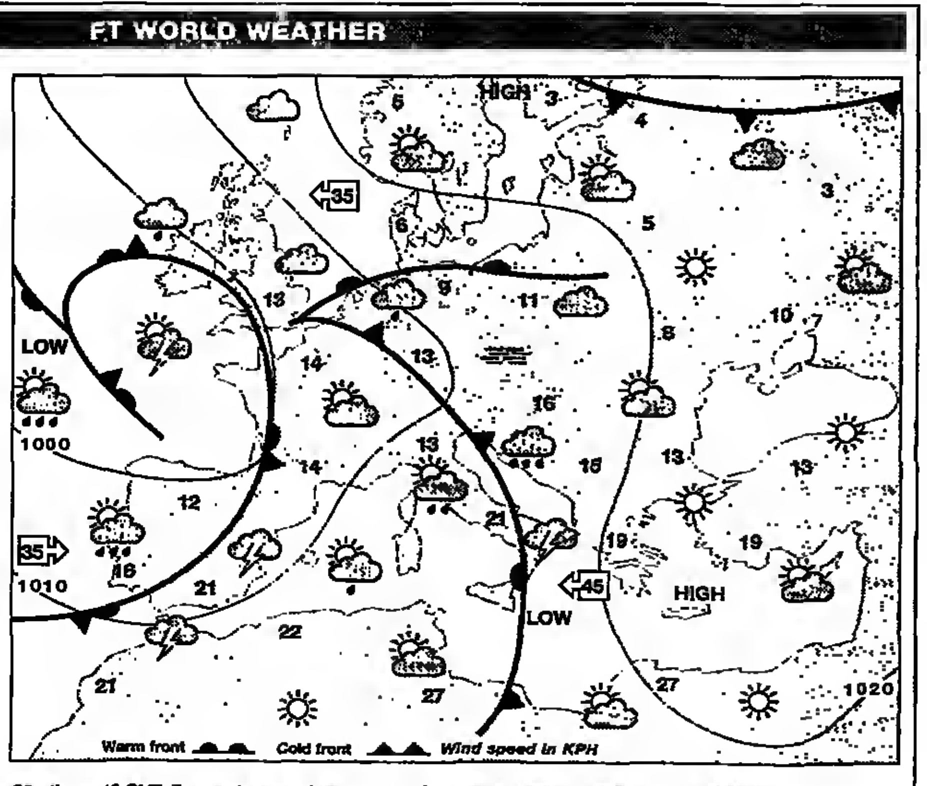
Europe today

A low pressure area will approach south-west Ireland causing cloud in western France and much of the British Isles, along with some rain in the western regions. A cold front will move over Portugal and will trigger showers during the morning. The frontal zona will continue its way over Spain bringing showers in its wake. Another front will move into Italy, with heavy downpours and thunder showers in the south-eastern regions. High pressure over Scandinavia will bring settled but cloudy conditions. Eastern Europe will be dominated by high pressure areas which will bring sunshine in most parts. Northern Russia will have more snowfall es readings stay below 0C. Central Europe will continue cloudy and mainly dry.

Five-day forecast

A frontal zone will stay near the British Isles causing cloud and patchy rain. Low pressure will move from eastern Spain towards the east bringing heavy rainfall and thunder showers at first. Before long the showers will reach south-east Europe. New depressions will move from the Atlantic towards south-west Europe encoureging unsettled conditions.

High pressure will build over Scandinavia resulting in more sunny intervals.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																
			Belfast	shower	11	Cardiff	shower	12	Frankfurt	fair	14	Malta	fair	25	Rio	fair	28
			Belgrade	fair	14	Chicago	fair	9	Geneva	fair	14	Manchester	cloudy	13	Riyadh	fair	33
Abu Dhabi	sun	34	Berlin	cloudy	8	Cologne	cloudy	14	Gibraltar	thund	17	Manila	cloudy	32	Rome	cloudy	21
Accra	cloudy	30	Bermuda	fair	28	D' Salaam	fair	28	Glasgow	shower	11	Melbourne	shower	20	S. Frsco	sun	23
Algiers	shower	23	Bogota	cloudy	19	Dakar	fair	29	Hamburg	cloudy	6	Mexico City	fair	22	Seoul	fair	16
Amsterdam	cloudy	9	Bombay	sun	34	Dallas	fair	17	Helsinki	cloudy	4	Miami	fair	26	Singapore	cloudy	30
Athens	fair	19	Brussels	cloudy	13	Delhi	sun	30	Hong Kong	cloudy	24	Milan	shower	11	Stockholm	fair	4
B. Aires	sun	22	Budapest	fair	12	Dubai	sun	36	Honolulu	fair	29	Montreal	shower	6	Strasbourg	cloudy	12
B.ham	cloudy	12	C.hagen	fair	7	Dublin	rain	12	Istanbul	sun	15	Moscow	fair	3	Sydney	thund	21
Bangkok	fair	31	Cairo	sun	25	Dubrovnik	cloudy	18	Jersey	shower	10	Munich	fair	12	Tangier	thund	19
Barcelona	fair	18	Cape Town	fair	25	Edinburgh	cloudy	10	Karachi	sun	36	Nairobi	thund	24	Tel Aviv	fair	23
Beijing	fair	19	Caracas	cloudy	29	Faro	shower	19	Kuwait	fair	31	Naples	cloudy	21	Tokyo	fair	19
									L. Angeles	sun	23	Nassau	cloudy	28	Toronto	shower	6
									Las Palmas	fair	24	New York	fair	11	Tunis	fair	25
									Lima	fair	23	Nice	shower	16	Vancouver	fair	11
									Lisbon	shower	15	Nicosia	sun	23	Venice	cloudy	15
									London	cloudy	13	Oslo	fair	3	Vienna	cloudy	9
									Lux.bourg	cloudy	13	Paris	fair	14	Warsaw	cloudy	9
									Lyon	cloudy	15	Perth	fair	20	Washington	fair	13
									Madeira	shower	23	Prague	cloudy	11	Wellington	fair	14
									Madrid	shower	11	Rangoon	fair	34	Winnipeg	shower	2
									Majorca	fair	20	Reykjavik	shower	8	Zurich	fair	10

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday November 3 1993

INSIDE

Swedish bank returns to profit

Svenska Handelsbanken has weathered the Swedish banking crisis by moving into an operating profit of SKr1.39bn ($170m) for the first nine months, mainly because of higher revenues, cost-cutting and lower credit losses. Page 18

Kmart sells stores to rival

Kmart, the second-biggest US retailer, is selling most of its loss-making Pace Membership Warehouse clubs to rival retailer Wal-Mart. Page 20

A yen for good days of property

When Japanese banks established the Co-operative Credit Purchasing Company to clear away the industry's problem loans, they housed the new company in a half-empty Tokyo office building, reminding staff of the property market collapse blamed for the banks' woes. Almost a year later, the CCPC is still occupying one floor in a half-empty building. Page 21

Overflow of futures

European futures trading continues to break records. Liffe in London and the Matif in Paris, Europe's two largest futures exchanges, have already traded more contracts than for the whole of last year. Page 22

Powerscreen boosted by sales

Powerscreen International, the Northern Ireland-based manufacturer of screening and stone crushing equipment, has raised interim pre-tax profits 12.5 per cent to £12.4m ($18.4m) helped by strong sales growth, particularly in Asia and North America. Page 23

Ashtead seeks £20m from rights

Ashtead, the plant and machinery hire group, has announced a rights issue to raise some £20.4m ($30m) to fund expansion. Mr Peter Lewis, chairman, said: "There is no shortage of businesses to buy." Meanwhile, Abacus, a franchised distributor of electronics components, is coming to the market via a placing of shares valuing the company at £40.6m. Page 23

Discount retailer cuts loss

Mr Peter Carr, chairman of Amber Day Holdings, the discount retailer, said the business plan that he and his finance director had drawn up showed that discount stores were the fastest growing retailing sector – at about 10 per cent a year. The company cut its pre-tax losses in the year to July 31 from £7.75m to £2.09m ($3m). Page 24

Drugs do well in Bombay

India is in the dumps. Bombay's bourse, India's largest, has been haunted for some time by political fears but there have been bright spots. Pharmaceutical companies, especially transnationals, have stood their ground after impressive gains over the past three months. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)							
Rises							
Conti Gummi	1425	+	30	[illegible]	578	+	20
[illegible]	365	+	12.5	[illegible]	1065	+	22
Horten	220	+	15	Rodamco	929	+	24
Linde	874	+	34	Falls			
MAN	348.5	+	12	[illegible]	683	-	12
Falls				[illegible]	464	-	11
[illegible]	695	-	20	**TOKYO (Yen)**			
NEW YORK ($)				Rises			
Rises				[illegible]	465	+	65
Georgia-Pacific	68⅛	+	1⅝	Fukui Bank	801	+	40
Gerber Prds	12⅝	+	2	Falls			
IBM	45⅞	+	2	Daiwa Bank	1160	-	50
Louisiana-Pacif	41	+	2	Shin-Etsu Poly	549	-	41
Wal-mart	28¼	+	⅝	[illegible]	600	-	45
Worldcorp	5⅝	-	1⅞	Toyota Motor	1870	-	30
PARIS (FFr)							
Rises							
Essilor Int	643	+	11				

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Tunstall	560	+	20
[illegible]	106	+	7	Falls			
[illegible]	50	+	3	City Site Ests	32	-	8
Independent				[illegible]	148	-	13
[illegible]	408	+	25	[illegible]	91	-	4
Microtec	32½	+	4½	[illegible]	555	-	20
[illegible]	121	+	37	Forward Group	223	-	17
[illegible]	472	+	13½	[illegible]	65	-	3
[illegible]	222½	+	10	[illegible]	920	-	10
[illegible]	182	+	17	[illegible]	181	-	8
[illegible]	68	+	11	[illegible]	161	-	8
Select TV	23½	+	2½				
[illegible]	434	+	10	[illegible]	187	-	8

Sales stunt for share deals sans frontières

By Catherine Milton in London

CITY of London commuters were yesterday treated to the dubious honour of a woman dressed as a French onion seller handing out leaflets offering advice on how to profit as France privatises up to FFr380bn ($63.6bn) worth of state-owned companies.

The stunt was to encourage retail investors to exploit the European Community's regulations which outlaw discrimination of any kind against the nationals of one member state who apply for shares in the privatisations of other member states.

This makes UK retail investors eligible to apply for shares in an estimated $26bn of companies due to be privatised in EC countries this year.

Know your onions: the British stereotype of French dress

Of this total the French programme is one of the biggest and most attractive. The leaflets were offering "free advice" to UK nationals interested in buying shares in Rhône-Poulenc, the chemicals company, due to be privatised this month.

Retail applicants must have bank accounts in France.

Under UK law the Rhône-Poulenc securities may only be offered for sale to professional investors, although private investors are not prevented from taking the initiative to apply through a bank or broker in France.

The stunt may rebound on its instigator, Mr Roger Trotman, a chartered accountant and the sole trader behind Sutton-based Gloucester Trotman.

Last night the Institute of Chartered Accountants was studying his "investment advert": "We are looking at it from a regulatory point of view," a spokesman said.

Carmakers seek to defuse shareholder opposition to merger

Renault and Volvo act to quell dissent

By John Ridding in Paris and Hugh Carnegy in Stockholm

RENAULT and Volvo are to launch a concerted campaign to defuse mounting shareholder opposition to their proposed merger after the Swedish group was forced to postpone a vote to approve the deal.

Renault was confident that the merger would go ahead on schedule and said that Volvo's decision to postpone the vote from next week to December 7 would allow it to calm what it described as exaggerated concerns about the deal. "Volvo has given itself time to show investors that the agreement is indispensable for both companies," said Renault.

Swedish investors continued to press for a clearer timetable for privatisation and more information on the golden share which the French government plans to hold after the sale. The strength of opposition could increase pressure on the French government to make concessions to Volvo shareholders to win approval for the deal.

Mr Gérard Longuet, the French industry minister, telephoned Mr Per Westerberg, his Swedish counterpart, to emphasise the French government's commitment to privatising the merged group as quickly as possible. He also said that the golden share would be used to protect the combined group from predators and not to ensure French control.

Mr Pehr Gyllenhammar, Volvo's chairman, said his company was fully committed to the plan to merge the two groups' car and truck operations and would examine all criticisms. "We take the criticism seriously and will try to deal with it in the best way."

Volvo said it would discuss further with its main institutional shareholders their objections to the merger before deciding what demands to make on Renault and the French government to help win shareholder support.

Volvo said it was not demanding renegotiation of the merger agreement but would keep open the possibility of making some changes. French industry ministry officials said there was no need to change the terms. They blamed the opposition from Swedish shareholders on a lack of information and said that clarification of the disputed points should ease their concerns.

The merger, regarded by the French government as a necessary precursor to privatisation, is one of the most important projects in the government's industrial policy.

The stakes are also high for Mr Gyllenhammar. He came under increased personal criticism yesterday for having mishandled the Renault deal, a charge he denied. Critics said that if the merger fell through it would be the latest in a line of failed strategic initiatives in his two decades in charge of Volvo.

Paper over cracks, Page 18

Trevor Humphries

Pehr Gyllenhammar: 'We take the criticism seriously and will try to deal with it in the best way'

MEPC doubles exposure to US

By Richard Gourlay in London

MEPC, the UK's second largest property company, is to pay £115m ($170m) for American Property Trust, a unit trust controlled by UK pension funds that owns two shopping malls in the US. The acquisition is the first significant move by a UK property group into an overseas market for some time, as the recession has put most companies in the sector on the defensive.

While analysts say the APT acquisition is unusual because MEPC is paying a discount to net assets, the deal shows that some property companies may be beginning to consider buying assets once again having bolstered their balance sheets.

It doubles MEPC's exposure to the US property market where it already has interests in shopping malls. By issuing paper to pay for the deal, MEPC does not expect to deplete greatly the £222m it raised in July though a rights issue.

MEPC says the deal increases the proportion of assets in retail, rebalancing the portfolio in line with a commitment made in July at the time of the rights issue.

For APT's pension fund unit holders, the deal significantly increases the liquidity of their investment while leaving them an interest in US property.

MEPC will be issuing up to 22.65m new shares but APT unit holders will be able to take cash for up to 20 per cent of the consideration. The unit holders have agreed not to sell their shares for at least 12 months.

The company will also take on $176m of borrowings and preferred stock in UK-American Properties, American Property Trust's main investment vehicle in the US.

In the year to June 30, APT had pre-tax income of £4.4m and net assets of £145.6m. The pricing represents a discount of just under 10 per cent on the gross property value.

MEPC said the acquisition would enhance earnings per share and net assets per share this financial year.

Mr James Tuckey, MEPC managing director, said the properties were expected to yield about 8 per cent in their first year and at least 9 per cent thereafter.

The two shopping centres that make up most of APT's assets have a combined leaseable area of more than 2.5m square feet. As a result of the deal the retail content of MEPC's portfolio rises to 31 per cent from 26 per cent.

MEPC said that gearing would not be materially affected by the deal and the group could make further acquisitions.

Lex, Page 16

Fifth US television network planned

By Martin Dickson in New York

MEDIA companies Time Warnar and Tribune announced yesterday they were joining forces to launch a fifth US prime time television network – in direct competition with Paramount Communications and Chris-Craft Industries which also unveiled plans for a network last week.

"There is room for one more broadcast oetwork, bnt ooly one," said Mr Jamie Kellner, wbo will head the new organisation. "This is it." Mr Kellner played an important role in tbe launch of America's fourth network, Fox, which was set up in 1986 by Mr Rupert Murdocb's News Corporation.

Programming will be provided by Time Warner's Warner Brothers subsidiary, one of the top suppliers of prime time television in the US. Tribune, whicb publisbes the Cbicago Tribnne oewspaper, will contribute at least six of its seven television stations, covering 19 per cent of US bonseholds. Time Warner's cable interests would take the coverage to 29 per cent.

Paramount and Chris-Craft said stations which they owned would give their network access to 27 per cent of US households.

Both sides will be battling to affiliate the 280 independent stations in the US which are not tied into one of the three big longstanding television networks – CBS, ABC and NBC – or Fox.

Yesterday, Warner said it expected the network would initially cover 85 per cent of US households. It already had commitments from station groops representing 40 per cent coverage of the country.

Analysts reckon a network needs 70 per cent coverage to attract advertising necessary to support a large amount of original programming.

They doubt tbere is room in the US for more than one more network, given the limited pool of unaffiliated stations and increased competition for advertisers' dollars.

Warner intends to start its network in the next antumn, while Paramount is due to start in January 1995. Warner, like Paramount, plans to begin with just four bours of original prime time programming spread over two nights.In tbe second year Warner would add two nights of prime time viewing, with five hours of weekday and four hours on Saturday morning. A fifth prime time night would be added in year three.

Barry Riley

Pension fund as financier to public sector deficit

Europe's pension funds have neglected to cultivate a powerful democratic constituency which might offer protection against the whims of their political lords and masters. Will they now pay the price?

A month ago the trade association for Europe's occupational schemes, tha European Federation for Retirement Provision, sent up distress signals from Brussels. The new directive on pension fund investment, progressing slowly through the European Commission, had been hijacked. Instead of delivering the promised freedom of investment policy the directive might impose new restrictions on funds in states where no serious constraints at present exist.

Now the British funds are getting into their own domestic panic ahead of the Budget on November 30. The UK'a schemes in aggregate represent some 60 per cent of the European total (although the Dutch and Danish funds are bigger in relation to GDP). British funds were already hit for £600m last March in Norman Lamont's Budget, when he cut the tax they could reclaim on UK company dividends.

The initial lack of protest last March, when the pension funds at first dismissed the change as an unimportant technicality, has now made them into a soft target for a second raid. If tax relief on dividend income were totally withdrawn, possibly over two or three years, the eventual annual cost would be about £2.5bn.

Right across Europe, not only are governments reluctant to extend tax reliefs hut they see pension funds, where they exist, primarily as vehicles to finance public sector deficits. Hence the row over freedom of investment. Even the normally tolerant Dutch government, which allows privata sector funda to invest more or less how they please, has cavilled at the prospective loss of the giant civil servants' fund ABP as a captive bond investor.

It is easy for governments to dress up self-interested restrictions on the basis, for instance, that they promote prudence, and therefore protect pensioners. Even Norman Lamont was cheeky enough last March to claim that his dividend tax measures were introduced to help corporate cash flow.

Members of schemes are kept ignorant and passive

The underlying retionale for funded schemes (as opposed to pay-as-yon-go alternatives) is, however, that they create an extra flow of capital for investment. This will either raise the domestic economic growth rate or, if domestic opportunities are unattractive, will be channelled abroad and finance a pool of overseas assets. Either way, the burden of paying for future pensions will be reduced.

But only in the UK, where 57 per cent is invested in domestic equities and 30 per cent in overseas assets, has this been taken to anything like its logical concluaion. The Germans, true, plough large sums back into company balance sheets through the book reserva approach; but where separate funds exist in Germany they can invest no more than 30 per cent in equities and 5 per cent abroad.

But if pension funds buy government bonds there is little long-term justification unless the money is invested in physical infrastructure or, just arguably, human capital. The danger now is therefore that governments will view pension schemes as the convenient dumping grounds for otherwise unsaleable debt. Certainly the £50bn a year now being raised by the British government is almost entirely absorbed by current spending, with very little investment content. Already, however, there is a larger tax break for UK pension funds on government bonds than on equities, and the pensions directive, as currently drafted, would allow the British government to set upper limits on exposures to equities and overseas assets.

Some 23m Europeans are beneficiaries of funded pension schemes. Yet few make any connection between size of their pensions and the regime of regulation and taxation that governs the investment of the assets. It has suited the sponsors to design their schemes so that the members are kept ignorant and passive rather than knowledgeable and potentially troublesome.

But will half-hearted lobbying through official channels really be effective when tha politicians will respond only to the sight of thousands of scheme members angrily on the march?

Revenue lift consolidates recovery at Svenska bank

By Christopher Brown-Humes in Stockholm

HIGHER revenues, cost-cutting and lower credit losses combined to help Svenska Handelsbanken swing to an operating profit of SKr1.39bn ($170m) in the first nine months of 1993, from a SKr883m loss in the same 1992 period.

The bank's result has improved in every quarter this year, culminating in a SKr552m profit in the July-to-September period. This recovery and the SKr2.65bn proceeds of its October rights issue have left it in a strong competitive position based on a 12.4 per cent capital adequacy ratio.

Total operating income in the first nine months was up 17 per cent at SKr10.7bn. This followed a 10 per cent rise in net interest income, to SKr7.54bn, and higher commission and property rental income. The bank also realised SKr400m in capital gains on bond sales, compared with SKr80m last time.

Expenses were virtually unchanged at SKr3.98bn, with higher system development costs and the weaker Swedish krona offsetting a 2 per cent fall in personnel costs.

Another encouraging feature was the 12 per cent fall in loan losses, to SKr5.28bn, equal to 2.6 per cent of total lending. Problem loans fell to SKr12.4bn, or 4.5 per cent of lending volume, compared with SKr13.2bn at the end of June.

Svenska Handelsbanken has weathered the Swedish banking crisis better than its rivals. It was the only large Nordic bank which neither received nor sought government assistance. Its position has helped it to lift market share at a time when recession has curtailed demand for loans.

The bank plans to use the rights issue proceeds to meet increased loan demand as the Nordic economies recover, and to expand its office network. It is already Norway's fifth-largest commercial bank, and has plans to build up its operations in Denmark and Finland.

It is one of four banks in the final round of bidding for Gota Bank, one of two commercial banks taken over by the Swedish government last year.

Gildemeister to raise DM40m

By David Waller in Frankfurt

GILDEMEISTER, one of Germany's leading machine-tool manufacturers, is to double its capital base and cut its workforce. The move is aimed at staving off the impact of deep recession in what used to be one of Germany's most prosperous industrial sectors.

The Bielefeld-based group said it planned to hold a near one-for-one rights issue to raise DM40m ($23.6m) in new equity. The issue is to be underwritten by Westdeutsche Landesbank, the house bank to the state of North-Rhine Westphalia in which Gildemeister is based. In addition, banks will be forgoing debts totalling DM32m.

Gildemeister plans to reduce its workforce by 380, in the latest of a series of job-cutting measures which have taken the group total to just over 2,000 from 3,200 at the end of 1991.

The group, which specialises in turning machines, said it had devised a new strategy to adapt further to market conditions. It is planning to reduce the number of products which it makes, and to contract out layers of manufacturing to third-party suppliers.

It gave no details of its operational situation, but the measures imply a further deterioration in business conditions in the second half of the year. At the end of June, the order book was 45 per cent of last year's level. Last year, the group made losses of DM77m on turnover of DM470m; the group has already warned that losses for the current year will be substantial.

Gildemeister's problems highlight the difficulties of the German machine-tool sector, where production fell 13 per cent in 1991 and a further 17 per cent last year. It is set to fall again in 1993, taking output to half the level in 1989, the peak year for the industry in Germany.

The sector is blighted by domestic recession, the impact of the strong D-Mark on export orders, the collapse of traditional export markets in the former eastern bloc, and intensifying competition from Japanese manufacturers.

Bank of Finland sells Tampella stake

By Christopher Brown-Humes in Stockholm

THE IMPROVING fortunes of Tampella, the Finnish engineering group, have prompted the Bank of Finland to sell more than half its remaining stake in the company to domestic and international investors.

The disposal of 18m shares reduces the bank's stake in Tampella to 23.6 per cent from 50.6 per cent, and raises FM443m ($76m).

It represents a further diversification of the company's ownership base after the bank sold 25m shares to investors in New York, London and Stockholm for FM600m in August. Prior to that it held 88 per cent of the company.

Tampella was acquired by the Bank of Finland, the Finnish central bank, as part of a broader rescue of Skopbank in 1991. The group has shown a strong recovery since then, following extensive restructuring and cost-cutting which has left it focused on power and drilling operations.

In the first eight months losses after financial items were cut to FM65m from FM317m in the same 1992 period.

Time-out called as strains start to show

Delay to Renault-Volvo merger reveals differences in emphasis, say Hugh Carnegy and John Ridding

LIKE embarrassed mechanics rushing to fix a new model that stalls in the showroom, executives from Volvo and Renault were quick to insist yesterday that their ambitious plan to form a Franco-Swedish automotive powerhouse was suffering from no more than a temporary hitch.

Both groups explained in soothing tones that Volvo's decision on Monday to postpone a shareholder vote on the proposed merger of its car and truck operations with state-owned Renault was simply a move to allow them more time to answer the concerns voiced by Volvo's highly sceptical Swedish shareholders.

But despite the attempt at reassurance, there was little disguising that the postponement had revealed the strains involved in converting their three-year old alliance into a full-blown merger and carried no guarantee that Volvo will win a Yes vote from its owners at the re-scheduled meeting on December 7.

A difference in emphasis was discernable between the French and Swedish sides yesterday. Renault and the French government stressed that clarification of the existing agreement, not renegotiation, was the order of the day.

Volvo, however, did not rule out seeking at least some changes in the merger deal after it had ascertained more clearly what its shareholders – mostly institutional investors – objected to.

Working out what the Swedish shareholders are demanding is a more difficult task than it might at first sight appear. The opposition to the deal has focused on the timing of the privatisation of Renault – set to take place after the merger takes effect at the beginning of next year – and the French government's intentions concerning the use of a golden share which it will retain after privatisation.

A director of one leading shareholder fund said yesterday that these questions had a vital impact on any analysis of the worth of the merger deal for Volvo, which is set to have a 35 per cent share in the new Renault-Volvo company.

"Renault is basically making a bid for Volvo's cars and trucks and paying with its shares," he said. "As Volvo shareholders, we cannot assess what those Renault shares are worth until Renault has a market value."

He said the French government's plan to retain a golden share not only contained a future threat to the level of Volvo's holding in the merged company. It also amounted to a "poison pill" which would entail a discount in the share price of the merged company and thus also had an impact on the worth of the deal to Volvo.

This shareholder would likely be satisfied by more information on the values imputed in the deal by Renault and Volvo and more details – hitherto not circulated by Volvo – of a mostly favourable "fairness opinion" commissioned from Credit Suisse First Boston.

However, some Swedish opposition goes well beyond this. It ranges from demands that the merger be postponed until after Renault's privatisation, to long-standing hostility to Mr Pehr Gyllenhammar, the Volvo chairman, and his perceived sell-out to foreigners of Sweden's industrial crown jewels.

"Certainly there is a degree to which the privatisation and golden share issues are being used as a smokescreen for more basic opposition," said a Stockholm investment broker.

The French government and Renault believe that the failure to persuade Volvo's shareholders has been a problem of presentation rather than the terms of the agreement.

Mr Gérard Longuet, the industry minister, promises that the merged group will be privatised as quickly as possible after the merger and that this should be achieved by the end of next year.

The problem, however, is that such statements fall short of demands from Swedish shareholders for a fixed timetable.

The French government says that because a successful privatisation depends on the conditions in the financial and car markets it is unwise to set a more precise date. "Do you think shareholders would appreciate it if we went through with a privatisation which flopped?" asked one economic official.

One solution would be to move the merger up the list of 21 publicly owned groups slated for privatisation, or even to launch the privatisation at the time of the merger – scheduled for January 3 next year.

The problem with this approach, say French officials, is that it is necessary to establish a value for the merged company before it can be sold. It would also be politically difficult to bow to Swedish pressure on the timing of the sale of one of France's flagship public sector industrial groups.

As for the golden share in Renault, the French government will retain the right to limit any investor to 20 per cent of the merged company's capital in the event of a breakdown of the shareholders' agreement. The government says that the golden share would only be used to protect the group from a hostile take-over.

Nevertheless, it enables the French government to ensure French control of the group following privatisation – including, in theory, forcing Volvo's share down to 20 per cent. Hence Swedish objections.

Persuading Swedish shareholders over the next month to support the merger seems certain therefore to require more than a stronger sell of the existing deal. At some point Volvo will turn to Paris for at least some degree of renegotiation, or new concessions.

The importance of the deal for the French government and its privatisation plans may ensure the door is open. But yesterday was much too early to predict whether the new Renault-Volvo model restarts and makes it out of the show-room.

French bank gives terms of FFr1.5bn share issue

By Alice Rawsthorn in Paris

CREDIT Foncier de France, the French banking group, yesterday joined the queue of companies tapping the Paris stock market for capital by announcing the terms of a FFr1.5bn share issue.

The group, which said it had decided to raise capital to "increase our financial capacity and to help us with our development", is issuing 1.48m new shares at FFr1,000 each.

Under the terms of the issue, Crédit Foncier's existing shareholders will be given preferential rights to subscribe for one new share for every seven already held.

Crédit Foncier, like other French banks, has recently come under pressure because of the recession. It previously announced a 14.4 per cent fall in interim net profits, to FFr404m ($68.13m) for the first half of 1993 from FFr472m in the same period last year.

However, the group also confirmed its performance was likely to improve in the second half, thereby producing a more favourable result for the full financial year.

The announcement of the FFr1.5bn issue follows the launch of similar capital-raising exercises by other French companies, including the BSN food group, the Lafarge-Coppée building materials concern and Schneider, the electrical engineers. They have timed their issues to take advantage of buoyancy in the Paris stock market.

NEWS IN BRIEF

Denmark to sell stake in Girobank

THE DANISH state will float 51 per cent of the share capital of state-owned Girobank, the post office's banking business, on the Copenhagen stock exchange, Reuter reports.

The 51 per cent stake, amounting to 2.55m shares with a nominal value of DKr100 ($14) each, will be offered at a price of DKr300 each between November 15 and 17. Girobank will be listed from December 1. It is the first major flotation under a privatisation plan also including telecoms group Tele Danmark, in which the state wants to cut its 93.7 per cent stake to 51 per cent.

Winterthur warning on life insurance

WINTERTHUR Insurance said premiums growth in life insurance business in 1993 would be significantly below last year's 15 per cent, Reuter reports from Diessenhofen.

Mr Peter Spaelti, chairman, said premium growth in domestic life insurance business would grow satisfactorily. He gave no details.

Domestic life insurance business represents some two-thirds of the group's total.

Portuguese bank attracts bid

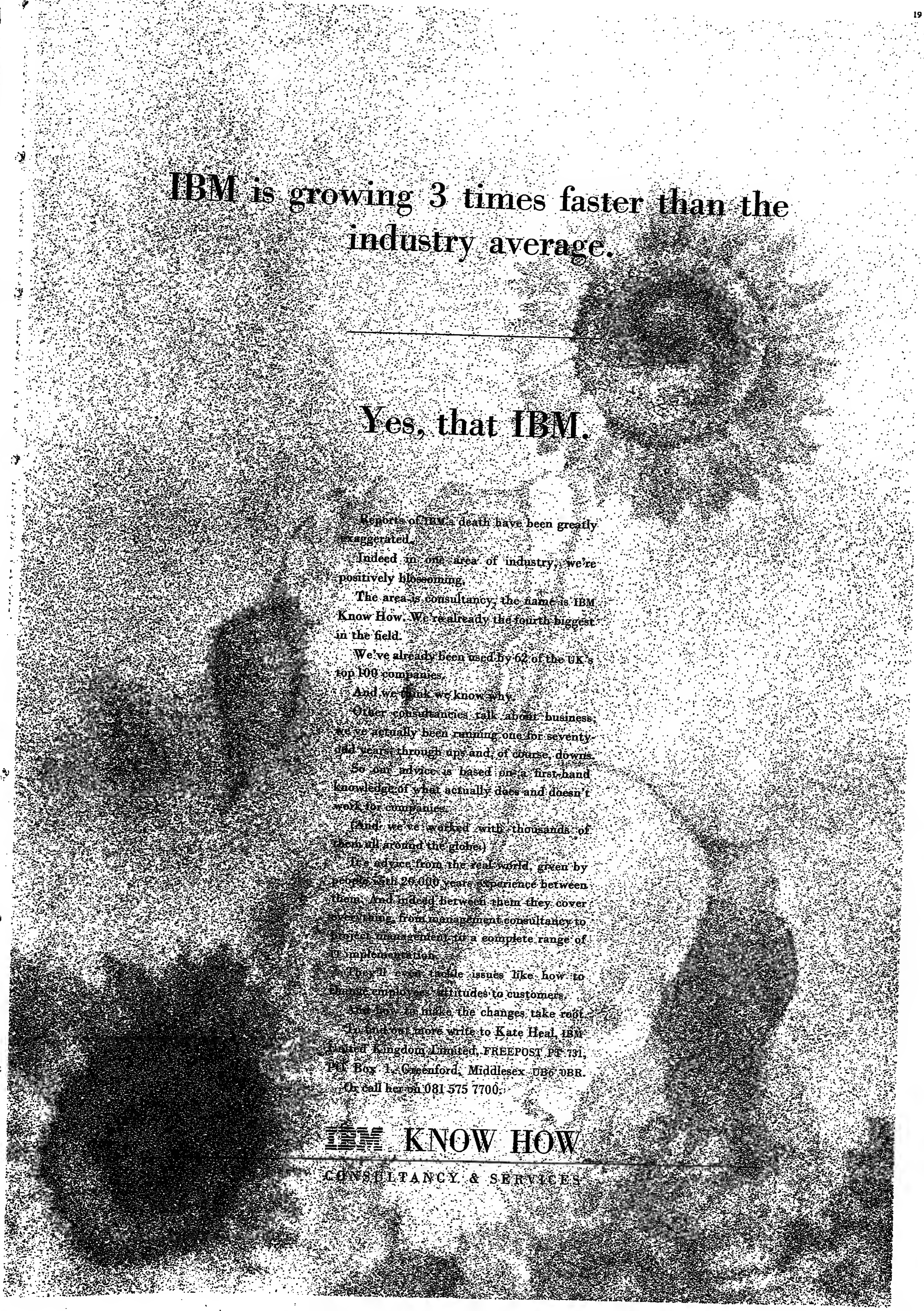
THE PORTUGUESE government has received a single bid for an 80 per cent stake of state bank Banco Pinto e Sotto Mayor, which is being privatised, a government official said, Reuter reports from Lisbon.

Earlier, Banco Comercial Portugues said it was handing in its bid for the bank.

Lloyd's capital plans still on course

THE SPONSORS of two of the biggest investment trusts at the Lloyd's of London insurance market will today press ahead with plans to raise some £400m in corporate capital despite setbacks to some smaller schemes in the last few days, writes Richard Lapper in London.

Backers of the larger schemes, sponsored by Samuel Montagu and Barclays de Zoete Wedd, will issue prospectuses today and are confident about raising capital from a range of institutions, including pension funds, life assurance companies and retail investors.


IBM is growing 3 times faster than the industry average.
Yes, that IBM.
Reports of IBM's death have been greatly exaggerated.
Indeed in one area of industry, we're positively blossoming.
The area is consultancy, the name is IBM Know How. We're already the fourth biggest in the field.
We've already been used by 62 of the UK's top 100 companies.
And we think we know why.
Other consultancies talk about business; we've actually been running one for seventy-odd years through ups and, of course, downs.
So our advice is based on a first-hand knowledge of what actually does and doesn't work for companies.
(And we've worked with thousands of them all around the globe.)
It's advice from the real world, given by people with 20,000 years experience between them. And indeed between them they cover everything, from management consultancy to project management to a complete range of IT implementation.
They'll even tackle issues like how to change employees' attitudes to customers.
And how to make the changes take root.
To find out more write to Kate Heal, IBM United Kingdom Limited, FREEPOST PT 731, PO Box 1, Greenford, Middlesex UB6 0BR.
Or call her on 081 575 7700.
IBM KNOW HOW
CONSULTANCY & SERVICES

Kmart sells Pace warehouse stores to Wal-Mart

By Karen Zagor in New York

KMART, the second-biggest US retailer, is selling most of its loss-making Pace Membership Warehouse clubs to rival retailer Wal-Mart Stores.

Although terms were not disclosed, Kmart said the deal would yield net proceeds of about $300m in cash, equal to Pace's net tangible book value.

Kmart is taking a pre-tax charge of about $450m against fourth-quarter earnings to cover costs of the sale, and the closure of 41 units not being sold to Wal-Mart.

Wal-Mart, which owns 326 Sam's Club werehouse stores, is buying 91 Pace outlets.

Wall Street had expected Kmart to shed its Pace stores. Kmart shares held steady at $24¾ at mid-session, while Wal-Mart rose $⅝ to $26⅞.

Kmart's foray into the deep discount market has been beset by problems. It first struggled with Makro, a low-cost, warehouse-style retailer operated in the US as a joint venture between a Michigan-based group and SHV Holdings of the Netherlands. The Makro outlets were merged into the Pace business after Kmart acquired Pace for $322m in 1989.

The timing of Kmart's Pace acquisition was also unfortunate. Shortly after Kmart decided that clubs were more than a fad and expanded into the sector, the industry started to show its vulnerability to competition and the weak economy.

Pace, which had operating losses of $63m in the first half of this year, has been criticised for operating inefficiencies.

In contrast, Wal-Mart was quick to spot the potential in the sector, opening three Sam's Wholesale Clubs in 1983. By 1990, the company had more than 140 Sam's outlets.

Although the rate of same-store sales growth at Sam's has declined this year, analysts have praised its sophisticated distribution system. They expect it to benefit from the Pace acquisition.

The Pace deal will also strengthen Sam's position against the consolidation of Price/Costco – the second- and third-biggest warehouse club chains which agreed to merge this year.

Wal-Mart said the Pace clubs would continue to operate under the Pace name until the sale was finalised.

Pace memberships will be honoured by Sam's after the sale is completed.

The divestiture will help Kmart focus on its core discount-store operations. In October, the company said it might sell 25 per cent stakes in its Sports Authority, Borders, OfficeMax and Builders Square specialty chains through initial public offerings.

In August, Kmart confirmed it was seeking bidders for its PayLess drugstores chain. According to US press reports, Kmart has tentatively agreed to sell PayLess for $1bn to a Los Angeles-based investment firm.

Cincinnati Milacron in German acquisition

By Frank McGurty in New York

CINCINNATI Milacron, the US machine toolmaker, is to buy the Ferromatik plastics-moulding equipment business from Klöckner Werke of Germany for DM94m ($56m).

The US company hopes the acquisition will bolster its moulding machinery business, while giving it immediate access to the European market, the world's largest for such equipment. The acquisition is expected to add $100m to 1994 revenues.

The growing importance of the business to Milacron's bottom line was underscored yesterday by the announcement of third-quarter results.

Stripping out extraordinary items, operating earnings were up 58 per cent at $8.4m, or 25 cents a share, on revenues of $301m, a 33 per cent gain.

The improvement reflected in part one of the best quarters ever for the plastics machinery group, which appeared to be on target for a record-breaking year in new business and sales.

The strong performance in plastics equipment offset weakness in the machine tools segment, which posted flat sales, lower earnings and a "precipitous fall-off" in orders.

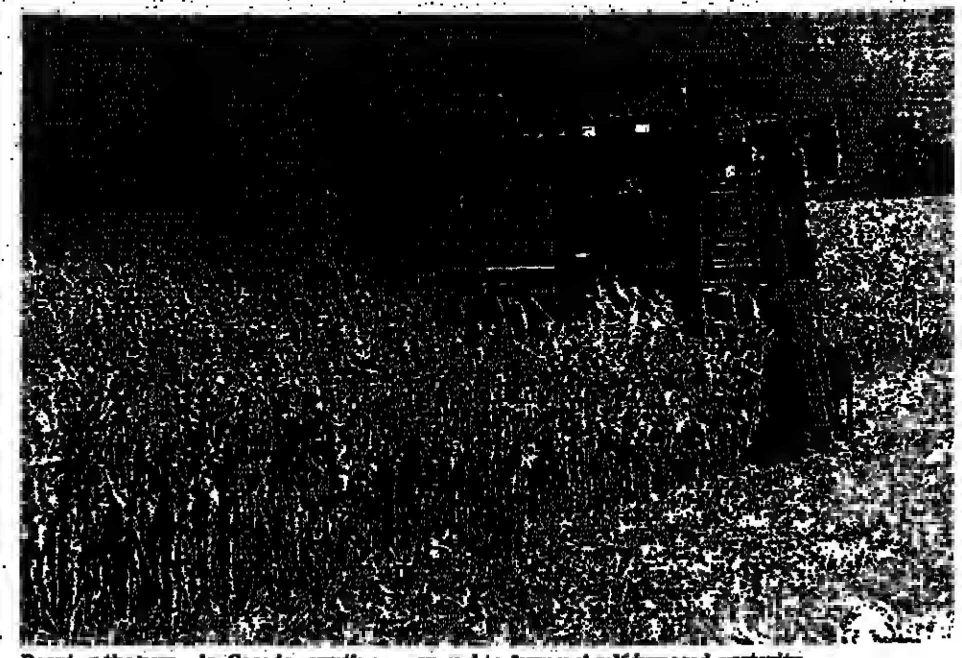
"Our machine tools business continued to be hurt by the deep recession in the aerospace industry," said Mr Daniel Meyer, chairman and chief executive.

The results include an $18.1m charge related to Sano, a supplier of plastic film systems acquired in 1986. The company wants to sell Sano because of problems of integration with core businesses.

With the one-time provision included, the company posted a net loss of $7.9m, or 23 cents, against net earnings of $7.3m.

Case gets in shape for a difficult harvest

Laurie Morse examines restructuring at Tenneco's agricultural machinery subsidiary



Reaping the rewards: Case is counting on an end to farmers' self-imposed austerity

THE grain harvest is about three weeks behind schedule in the American mid-west, and farmers are working overtime, pushing their tractors and combines to the limit.

The machines are invariably the trademark green of John Deere, or the distinctive red of the old International Harvester company, whose logo has been assumed by equipment manufacturer J.I. Case, the Wisconsin-based unit of Tenneco.

This year, with US farm income projected at 10 per cent above 1992's $62.5bn, Deere and Case are hoping farmers will end their self-imposed austerity and make long-deferred purchases of tractors and other equipment. For Case, always a distant second to Deere, the battle for market share will be more difficult than usual.

The company, the largest division of Houston-based Tenneco, is restructuring, with the aim of returning the unit to profitability. Case delivered $4bn in revenues to Tenneco last year, and still logged a huge $1bn loss.

Quality problems in manufacturing, a pricing policy aimed at maintaining market share at any cost, and out-of-control inventories have plagued Case for years. When turnround expert Mr Michael Walsh took the helm at Tenneco in 1991, he hired an old friend, Mr Dana Mead, as president and asked him to revamp Case.

Mr Mead tackled inventories that had jumped as high as $2bn, ordering manufacturing cutbacks and reduced manufacturing time. He also cut the workforce to 17,000 from about 30,000 in 1990.

Mr Mead also instituted stringent quality controls, and reviewed Case's agricultural and construction equipment product lines model by model.

Some products were scrapped and others were retooled so that Case retained only assembly functions, buying parts from outside suppliers. Production was rationalised to meet customer demand, a new concept for Case.

This year 70 per cent of its output will be built to customer specifications, rather than being manufactured wholesale and then customised through costly rebuilding.

Mead also ended Case's customary sales discounts. This reform has reduced volume this year, but profits have grown.

"Case forgot it liked to make money and just liked to make tractors," Mr Mead jokes.

Inventories fell by $719m in 1992, and are projected to be down another $300m in 1993. Tightening quality controls at the factory and in the sales process has saved the company about $200m this year, according to Mr Ted French, Case's chief financial officer.

Mr Mead's policies are paying off. Case posted a $52m operating profit at the end of the third quarter, up from a loss of $134m a year earlier. Contrary to Wall Street projections only a few months ago, Case is expected to show a profit for the full year.

Its production lines are gearing up for a 30 per cent surge this quarter, to bring output in line with that of 1992. Meanwhile, Mr Mead says he intends to continue to trim his workforce, and will squeeze out an additional $34m in quality savings in 1994.

Still, analysts say the turnround is weak at best. Mr Frank Manfredi, editor of Machinery Outlook, an Illinois-based newsletter, says Case's practice of rolling earnings from the financing unit into profits boosted the third-quarter bottom line. Without the credit subsidiary's contribution, Case's year-to-date operating profit is a mere $12m.

The company's European cuts have been difficult, and markets there are shrinking, while the US agricultural economy remains flat.

Mr Mead says it is not yet time to ease up. "This is just the beginning of the transformation," he told analysts recently. "It's been a long, tough struggle and we're not getting any help from our markets."

Indeed, Case is projecting sales of $2.8bn in North America this year, and about $1.1bn in Europe, its second-largest base.

Of those sales, about 60 per cent will be agricultural machinery and 40 per cent in construction equipment.

The late harvest has delayed the autumn selling season for big-ticket agricultural items such as tractors by about three weeks in North America. Meanwhile, farmers who are used to buying Case's shiny red tractors at juicy discounts are finding value pricing hard to swallow. "They're trying to wait us out, looking for year-end mark-downs," one dealer observed.

And while US farm income is up slightly this year, it is projected to be down 8 per cent in 1994, a forecast that reinforces Mr Mead's determination to raise operating profits even as sales decline.

IN Europe, the situation is even more dismal. European tractor sales are projected to fall to 108,000 units in 1994, down from 181,000 in 1990. Industry-wide sales of construction equipment are flat to lower. And unlike North America, competition is fragmented and intense.

"The big German construction market remains depressed. "We don't have any idealistic views about the 1994 market," says Mr Steve Lamb, Case's managing director for Europe.

Case's policy of holding the line on discounts has not succeeded in Europe, where Deere, also suffering from a shrinking market, is pricing aggressively.

Case operates eight manufacturing plants in Europe, most of them the legacy of Tenneco's acquisition of France's Poclain construction equipment and International Harvester's agricultural divisions in 1985.

Several small manufacturing operations are being closed or reduced in size, with redundancies of about 1,000 workers. That includes the 266 redundancies at Case's French plants announced in September.

Given Case's ambitions restructuring plans and the struggling state of Poclain's businesses, "its a pretty safe bet that you'll see more closures in France", where about half of Case's 7,500 European employees are situated, Mr Lamb says.

The contraction is fundamental to the success of Case's turnround. "It is essential to get the size of production down to the size of the market," Mr Mead says.

Quebecor lifts sales, earnings in third term

QUEBECOR, the Montreal-based publishing group which controls North America's second-biggest commercial printer, reported a gain in sales and earnings in the third quarter, writes Robert Gibbens in Montreal.

Net profit was C$17.5m (US$13.5m), or 27 cents a share, up from C$16.1m, or 24 cents a share, a year earlier on revenues of C$789m, against C$623m.

Nine-month profit was C$52.6m, or 77 cents, up from C$36.8m, or 55 cents, excluding special items in both periods. Revenues for the period advanced to C$2.2bn from C$1.8bn.

Quebecor is controlled by the Peladeau family. It owns Canada's second-biggest daily newspaper, and weeklies and magazines. Much of its income comes from the 55 per cent-owned Quebecor Printing.

● Talisman, the former BP Canada, earned C$4.3m, or 7 cents a share, in the third quarter, double the total of a year earlier. For the first nine months it earned C$19.2m, or 33 cents, up from C$7.5m, or 15 cents, a year earlier.

The company has doubled oil and gas production and reserves this year through a significant acquisition, and gas prices have risen steadily. A lower Canadian dollar has also helped.

● Bow Valley Energy, 33 per cent held by British Gas and expanding internationally, earned C$10.4m or three cents a share in the first nine months, up from C$7.9m or one cent a share, on revenues of C$178m, little changed.

ABB investment fund link-up

ASEA BROWN Boveri, the European manufacturer of power plant and industrial systems, is setting up a fund with six US investment institutions to provide equity and subordinated debt to help finance industrial and power projects in the US, writes Martin Dickson in New York.

GE Capital, the financial services arm of power equipment manufacturer General Electric, already provides equity capital for power projects. ABB believes, however, its move will give it a lead in other industrial areas served by the company, such as petrochemicals and paper and pulp.

Norwegian bank back in black

By Karen Fossli in Oslo

SPAREBANKEN Nor, Norway's third biggest bank in asset terms, yesterday disclosed it had returned to the black in the first nine months of this year, posting a pre-tax profit of NKr1.034bn ($14m), against a NKr210m loss last year.

The sharp improvement was helped by substantial gains on securities, lower interest rates, and a decline in loan losses.

The bank, known internationally as Union Bank of Norway, increased net interest income by NKr315m to NKr2.29bn in the nine-month period as other operating income – gains on securities and foreign exchange – more than doubled to NKr1.55bn from NKr671m.

"About half the improvement is due to gains on securities," Sparebanken Nor said.

Group operating expenses rose slightly by NKr84m to NKr1.85bn as operating profit, before credit losses and write-downs, more than doubled to NKr1.99bn, or 2.82 per cent of average assets, from NKr875m. Losses on loans and guarantees were cut by NKr124m to NKr944m.

"Calculated on an annual basis, the loss ratio for the first nine months was 1.6 per cent of gross loans, while for 1992 the figure was 1.9 per cent," the bank said.

Sparebanken Nor has recommended a dividend payment of not less than NKr15 per primary capital certificate (PCC) for 1993.

PCCs are financial bourse-listed instruments, similar to preference shares, which are traded like usual stocks and governed by the same legislation. They are used by Norway's savings banks to raise fresh equity capital and to expand their ownership to include a limited percentage of foreign shareholders.

Asbestosis claims charge pushes Cigna into the red

By Richard Waters in New York

A $244m after-tax charge to cover asbestosis and environmental claims pushed Cigna, the US insurer, into the red during the third quarter of the year.

The company also took a $107m charge to cover 1,400 redundancies in its health and property/casualty businesses, which have already been reported, as well as a further 800-1,000 job losses expected in the next 18 months.

The latest charges led Cigna, one of the leaders in the US health and life insurance businesses, to post a net loss of $94m, or $1.31 a share, for the period, compared with a net profit of $50m, or 70 cents, a year ago.

The scale of the loss was reduced by a $48m benefit from the change in the US corporate tax rate.

The results a year before had been struck after one-off items which led to a net benefit of $42m.

Operating results during the period in health, pension and life businesses had been strong, said Mr Wilson Taylor, chief executive.

Japanese refiners hit by fall in prices

By Emiko Terazono in Tokyo

REVENUES at Japan's leading oil refiners and distributors were hit by a fall in demand due to the stagnant economy, and a fall in prices.

Cosmo Oil, a leading oil wholesaler, reported a 7.3 per cent slide in non-consolidated sales to Y690.9bn ($6.4bn) for the first six months to September, due to the 3 per cent fall in sales volume. However, the company saw a 19.1 per cent rise in pre-tax profits due to higher profit margins for gasoline and kerosene.

A Y1.2bn fall in its financial deficit figure due to repayment of loans, also helped profits. After-tax profits fell 22.5 per cent to Y5.2bn as the previous year's figures were supported by income from land sales.

For the full year to March, Cosmo expects continued sluggish demand for oil products, and forecasts a 5.3 per cent fall in sales to Y1,470bn and profits to rise a marginal 0.6 per cent to Y32bn.

Nikko Kyodo, a mining and oil refining company which was established last December through the merger of Nippon Mining and Kyodo Oil, saw interim sales fall 8.6 per cent to Y664.2bn due to the fall in oil prices. Pre-tax profits however rose 28 per cent to Y12.3bn, while after-tax profits rose 78 per cent to Y7.2bn.

For the full year to March the company expects pre-tax profits of Y34bn on Y1,400bn in sales. After-tax profits are expected to total Y1bn as the company plans to book an extraordinary loss to liquidate Gould, its US unit.

Earnings at NZ utility ahead 19%

By Terry Hall in Wellington

TELECOM Corporation, the New Zealand utility controlled by Bell Atlantic and Ameritech, yesterday announced a 19.1 per cent increase in earnings to NZ$251.4m (US$139.5m) for the six months to the end of September.

Dr Roderick Deane, chief executive, said the "excellent" result was due to cost-cutting, "well focused, powerfully driven marketing initiatives" and the benefits of the continuing restructuring.

In February the company announced plans to cut the payroll by 5,000, and this process was running ahead of schedule, he said. The total employed had so far been cut to 10,360 from 12,338.

Net earnings for the second quarter rose to NZ$133.2m, a 17 per cent rise on the year-ago figure. However, the company warned against the expectation of earnings continuing to rise at that rate.

The dividend is being raised to 8.25 cents from 7.25 cents.

Operating costs, excluding abnormal operating costs, fell by 4.8 per cent to NZ$797.5m from NZ$837.4m. Total operating revenue was NZ$1218.6m a rise of NZ$3.5m.

Indian chemical group climbs

TATA CHEMICALS, the Indian fertilisers and chemicals company which is part of Tata, the country's largest industrial group, reported a 125 per cent advance in net profit to Rs683.9m ($22.2m) in the six months to the end of September, from Rs392.7m a year ago, writes Our Financial Staff.

Net sales amounted to Rs2.22bn, compared with Rs1.75bn.

HK Telecom plans cable TV service

By Simon Davies in Hong Kong

HONGKONG Telecom has announced plans to cash in on its existing telecommunications system by setting up a cable TV and video-on-demand service. The move comes two days after the launch of Wharf Holding's HK$5bn (US$647m) cable television network for the colony.

Hongkong Telecom attempted to bid for the first cable network franchise awarded in 1989, but the government decreed that it could own only 15 per cent of a cable operator and could not use its telephone network to relay the service, due to its monopoly position.

The monopoly on domestic services disappears in 1995, and since Wharf is planning to use its cable system as the basis for a second telecommunications network, Hongkong Telecom expects to be allowed to do the same, once Wharf's three-year exclusivity period expires in June 1996.

Hongkong Telecom anticipates that it would invest more than HK$1bn in building up a cable television system. It is expected to be joined by the Hutchison Whampoa group in its application for the licence.

Mr Peter Howell-Davies, Hongkong Telecom's deputy chief executive, said: "It is the right strategic step for us to extend the range of our video services to meet the needs of medium-sized business and domestic customers, as well as the major corporations."

Hongkong Telecom plans to launch a service whereby customers can dial a number and have videos delivered to their TV set through the telephone network.

Wharf Cable officials claimed such a service would provide only niche competition, since it currently offers eight channels, of which only one includes movies.

The push to launch a cable channel will cause greater concern, since Hongkong Telecom would be in a position to set up a network more rapidly and cheaply than any other company.

It has the obvious advantages of its existing network and its business relationship with almost every family in the colony. However, the move does underline the attractiveness of Wharf's new franchise.

Robert Thomson reports on the continuing trouble with bad debts

Property is still the problem for Japanese banks

WHEN Japanese banks established the Co-operative Credit Purchasing Company to clear the industry's problem loans, they housed it in a half-empty Tokyo office building.

It was an apt reminder of the property market collapse that is blamed for the banks' woes.

Almost a year later, the CCPC is still occupying one floor in a half-empty building, and the banks' non-performing loans continue to increase. The collapse this week of Muramoto Construction, a provincial contractor, has added to the total; its outstanding debt is estimated at a record Y590bn ($5.45bn).

The aim of the CCPC, established in January, was to buy the banks' non-performing loans and oversee the sale of property collateral, enabling them to write off the resulting losses. The banks hoped its valuations would put a floor under property prices, which have fallen by as much as 70 per cent over the past three years.

But the Muramoto collapse, which will leave deep scars at a few regional banks, raises doubts over the CCPC's ability to assist those most in need.

One problem is that the CCPC buys bad loans with money injected by the bank selling the loan, which means that weaker banks cannot afford to confront their portfolios.

Mr Akira Miyagawa, managing director of the CCPC, said public concerns about the health of the banking system have eased over the past year.

"We had as our objective a vehicle to handle the problem stage by stage, and I think we are doing that," he said.

However, the unexpected Muramoto failure has rekindled concerns. Doubt remains over the extent of the damage caused by reckless lending during the late 1980s, when banks competed fiercely for new customers and pumped money into speculative property developments.

At the end of March, Japan's 21 leading banks declared that they had non-performing loans of Y12,700bn, just over 3 per cent of total lending. That figure is thought to have risen to about Y14,000bn by the end of September.

Actual exposure is widely estimated at Y30,000bn or more, if lending by affiliates is included, but even that figure does not measure the burden of loan repayments frozen by many troubled clients.

The Muramoto case highlights the "hidden" liabilities carried by many Japanese companies, some of which routinely exaggerated the value of their land collateral and provided loan guarantees not reported in accounts. Muramoto is said to have guaranteed loans worth Y150bn, leaving it more vulnerable than the banks had realised.

Taking the official figure of non-performing loans, the CCPC has made little impression on the total. Until the end of October, loans with a face value of Y1,919bn had been purchased through the company for Y1,084bn – the price is calculated by a valuation panel which assesses the property collateral and other relevant assets.

However, the company has been able to recover only Y4.43bn of the Y1,084bn, meaning that most banks are unable to find buyers for property collateral.

At least the banks can claim the loss on their sale to the CCPC as a tax deduction; previously, they were virtually forced to wait until their client was declared bankrupt before tax authorities would accept the write-off.

But the CCPC has not fulfilled its stated aim of stimulating the property market.

Mr Miyagawa said the unexpected weakness of the economy, partly caused by the yen's sharp appreciation, has worked against a recovery in property prices – in all, 755 loans have been bought by the CCPC but property assets have been sold in only 19 cases.

"I think you can already see some improvement in the residential property market, but commercial property prices are still tending to fall. They could continue to fall over the next year but, in the longer-term, the market will recover," Mr Miyagawa said.

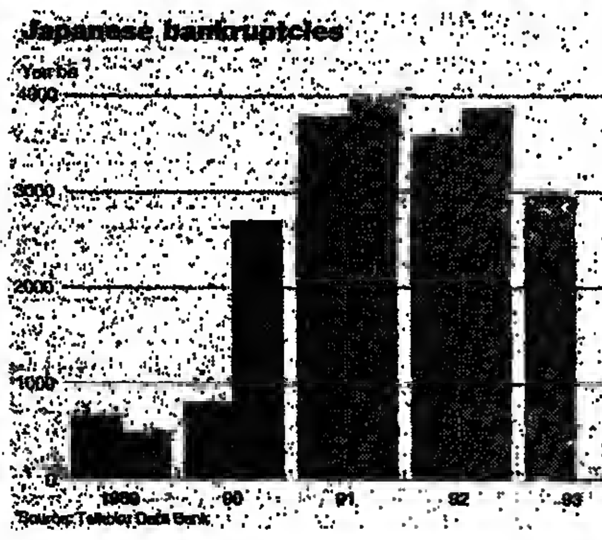
Nor are the banks helping the CCPC's cause. They have insisted on secrecy for more than 50 per cent of their sales, defeating the aim of providing information on property trends. And the pattern of sales, with a rush in the weeks just before the interim and annual book closing, works against the desired image of the CCPC presiding over an orderly resolution of problem loans.

In the period from April to September, 510 loans were purchased by the company; 414 were bought in September, just before the close of the first half. In October, banks brought only 16 loans to the CCPC – suggesting that most institutions see it merely as a vehicle to speed write-offs for tax purposes. Mr Miyagawa expects that the flow of bad loans will become more consistent.

Japanese banks, which will announce their first-half profits later this month, are able to afford write-offs because of falling interest rates, which have created a favourable spread. The official discount rate is now at a record low of 1.75 per cent, meaning that the cost of carrying the bad loans has also fallen. Without the good fortune of an interest rate fall, the CCPC would be under more pressure and the banks would be in greater pain from past excesses.

But the sudden failure of Muramoto Construction is a warning that Japanese banks' bad loan hangover from the late 1980s is far from over.

See Lex



Hopewell to create power unit

By Simon Davies

HOPEWELL Holdings, the Hong Kong-listed property and infrastructure group, is to create a separately listed company for its power plant operations, which will have an initial stock market value of HK$12.75bn (US$1.65bn).

Consolidated Electric Power Asia (CEPA) will become the holding company for all Hopewell's power generation projects. Hopewell was the first Hong Kong company to construct a power station in China and it has expanded this business into the Philippines.

It has completed three projects with a combined capacity of 1,010MW, and is constructing two more plants which would add a further 2,715MW.

CEPA is to issue HK$8bn of partly-paid shares to the parent company, and a further HK$4.7bn of shares to outside investors, including Hopewell's largest shareholder Mr Gordon Wu and Mr Li Ka-shing's Cheung Kong group. Peregrine International, the parent of the listed financial services group, and the large Japanese trading group Kanematsu will also take minority stakes.

The public offer will be valued at around HK$1.5bn, based on the projected issue price of HK$10 a share. The Hopewell group's own share placement will be issued on a partly-paid basis, but assuming full subscription, it will control 63 per cent of the new company.

The capital raising will enable the group to fund an aggressive expansion programme.

The company claimed that "a separate listing of CEPA will enable investors to assess the business of the CEPA Group and the other business of the Hopewell Group independently which, in the opinion of the directors of the company, will enhance the market rating of the Hopewell Group".

Tokyo broadcast unit alters view

TOKYO Broadcasting System, a leading Japanese commercial broadcasting company, issued revised unconsolidated earnings forecasts showing expectations for increased profits but falling revenue for both the six months to September 30 and the full year to March, AP-DJ reports from Tokyo.

The company said a review of costs and programming conducted last summer had resulted in a greater impact than expected on earnings.

Proton sales drive

PERUSAHAAN Otomobil Nasional Bhd (Proton), Malaysia's national car company, plans to start exporting left-hand drive cars to continental Europe by the middle of 1994, the company said, Reuter reports from Kuala Lumpur. Proton, in which Japan's Mitsubishi Corp and Mitsubishi Motors have a total 17 per cent stake, has formed a joint venture to sell its cars in Europe.

Malaysia/US deal

MALAYSIAN Helicopter Services has bought a 24.9 per cent stake in US cargo and passenger charter operator World Airways for US$27.4m, Reuter reports from Kuala Lumpur.

Associated Dairies backs QUF offer

By Nikki Tait in Sydney

ASSOCIATED Dairies, the Victoria-based dairy products company which is the focus of an A$82m (US$55m) bid battle, is recommending that shareholders accept a A$3.35 a share offer from QUF Industries in the absence of a higher bid.

"Your directors regard the offer as fair and reasonable and recommend that you join them in accepting this offer in the absence of a higher offer," Associated Dairies said in its formal bid response document filed yesterday.

Australian Co-Operative Foods (ACF) has launched a rival bid for Associated Dairies, but this is currently worth only A$3.25 a share.

ACF holds just under 20 per cent of its target's equity, shares which were bought at prices significantly below the QUF offer terms.

This would allow ACF to walk away from the battle with a profit of almost A$6m, if it chooses not to raise its terms again.

Associated Dairies directors, however, advised shareholders to wait until the last minute before accepting the offer from QUF.

"As your company has a unique position within the Victorian dairy industry, it is possible that either or both of these offers could be revised upwards in the days ahead," they said.

Sultan adds New York hotel to his collection

By Kieran Cooke in Kuala Lumpur

SULTAN Hassanal Bolkiah of Brunei collects luxury hotels like the rest of us collect postage stamps.

But when you have a personal fortune of $37bn you can afford to be a bit choosy about where you put your head down for the night.

The Sultan of Brunei (left) this week agreed to pay $202m for the luxurious New York Palace Hotel on Madison Avenue. The Sultan and his family also own the top of the range Beverly Hills Hotel in California and the Dorchester in London.

Closer to home, the Sultan controls two Hyatt hotels in Singapore. When the Sultan held a sit-down dinner party last year at his palace in Brunei for nearly 6,000 people as part of celebrations of his 25 years on the throne, Hyatt chefs and waiters were flown in from Sydney and Tokyo.

If the Sultan tires of hotel living on his frequent trips abroad there are alternatives available. The Sultan's family are believed to have at least two houses in Beverly Hills.

There are various houses and flats dotted round London. Then there is the main British residence – a country house conveniently situated close to Heathrow airport. The Sultan also has a mansion in central Kuala Lumpur.

The Sultan's latest acquisition has an interesting history. The New York Palace Hotel was once called the Helmsley Palace, after Mrs Leona Helmsley, once the most famous hotelier in the US and a leading New York socialite.

But the Helmsley hotel empire came crashing down in 1989 when Mrs Helmsley, known as the "Queen of Mean" for her treatment of hotel employees, was sentenced to imprisonment for tax evasion and mail fraud.

As the Sultan of Brunei's investment advisers were putting the final touches to documents buying the old Helmsley Palace, Mrs Helmsley herself was moving into less salubrious hotel accommodation – a halfway-house low-cost hotel just down the road from her old stamping ground.

INTERNATIONAL CAPITAL MARKETS

Eurosterling offer from British Land finds favour

By Antonia Sharpe

VOLUME in the international bond market picked up yesterday as British Land launched its widely-expected Eurosterling offering.

The commercial property group raised £150m through an offering of 30-year Eurobonds. The relatively generous yield spread on the unsecured bonds ensured a favourable reception with investors. The bonds were priced to yield 180 basis points over the 8¾ per cent UK government bond due 2017.

Lead manager S.G. Warburg said that following this issue, the average maturity of British Land's outstanding debt would exceed 20 years. Only a few years ago, 70 per cent of the company's debt had a maturity of less than five years.

The bonds, which were mainly placed with UK investors, had a fixed re-offer price of 98.843. When they were freed to trade they eased to 98.69 bid, in line with the weakness in the underlying UK government bond market. However, the spread on the bonds narrowed to 178 basis points.

The Spanish autonomous region of Catalonia is expected to make its debut in the international bond market today

INTERNATIONAL BONDS

with a FFr1bn offering of 10-year Eurobonds.

Catalonia's Eurobonds, via CCF, are likely to be priced to yield 30 to 35 basis points over the underlying French government OATs.

By contrast, the forthcoming FFr1.3bn offering of 10-year Eurobonds from the Spanish autonomous region of Andalucia is expected to have a yield spread of around 35 basis points.

Depfa, the German mortgage bank, is expected to achieve a yield spread of 20 to 25 basis points when it raises between FFr2bn and FFr3bn through an offering of 10-year Eurobonds.

Catalonia's issue is the result of the region's decision to open new channels for financing its debt. The region plans to fund up to a quarter of its annual borrowing needs in foreign bond markets from next year.

The region also plans to raise Pta25bn before the end of the year in the domestic Spanish market. The domestic issue and the Eurobond issue will complete the region's 1993 borrowing programme of Pta93bn. Catalonia plans to raise a similar amount next year.

Catalonia, which has a credit rating of Aa2 from Moody'a, has chosen French francs for its first Eurobond offering because of the low volatility between the franc and the peseta. Between 30 to 50 per cent of tha proceeds of the forthcoming Eurobond issue will be swapped into pesetas.

In the Eurodollar sector, the Kingdom of Sweden increased its recent global offering of floating rate notes (FRNs) by $500m to $1.5bn as investors sought protection against the volatility in the US Treasury market.

In the domestic sterling bond market, NatWest Capital Markets brought a £125m issue of debenture stock due 2018 for Halos, a new special purpose vehicle consisting of 10 housing associations. NatWest said that the introduction of covenants relating to capital and income gearing and its agreement to provide a 25-year loan facility representing 5 per cent of the nominal stock were designed to meet any investor concerns about the long maturity of the issue.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Asia Credit§(a)	100	3.5-4.0	100	2003	2.50	-	Salomon Brothers
Meditrust#§	75	6.875	100	Nov.1998	2.50	-	NatWest Capital Markets
Kingdom of Sweden†(c)	1.5bn	(c)	99.90	Nov.1998	0.16	-	Lehman Bros/JP Morgan
Philippine Nat.Power Corp#	200	7.825	100R	Nov.2000	1.125R	+225 (8½-00)	Morgan Stanley Intl.
STERLING							
Halos	125	8.375	99.061	2018	-	-	NatWest Capital Markets
British Land#	150	8.875	100.718R	2023	2.50	+180 (8¾-17)	S.G.Warburg
YEN							
Kirin Intl. Finance†(b)	5bn	(b)	100.30R	1997	0.30R		Mitsubishi Finance

Final terms and non-callable unless stated. The yield spread (over relevant government bond)at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) No call for 3 years, then subject to 140% rule. b) Initial 3% coupon until 24/2/97, then 6 month Libor – 25bp. Short first coupon. c) Amount increased from $1bn. Coupon pays 3 month Libor-0.125%.

Efim bank creditors set for repayments

By Haig Simonian in Milan

BANK creditors to Efim, the Italian state holding company put into voluntary liquidation in July 1992, may be on the brink of receiving their first repayments.

A first tranche of more than L2,170bn should be paid shortly following the signature in late October of a special decree by Mr Piero Barucci, treasury minister.

The repayment will be made in the form of government bonds. The five-year government bonds being paid to creditors will carry a coupon of 6.20 per cent.

Once necessary bureaucratic procedures are completed, between L1,450bn and L1,500bn will be reimbursed to around 20 Italian creditor banks.

Separately, Banca Commerciale Italiana, the bank which is to move from state control into the private sector and which is an agent for Efim, will receive about L700bn for on-payment to non-bank creditors.

The first of Efim's major repayments still leaves most foreign bank creditors in the cold, however.

Last month, a separate treasury decree authorised preliminary payments of L225bn, also in the form of government bonds, to a number of domestic and foreign banks. However, the bulk of Efim's foreign bank creditors are awaiting reimbursement of their loans, which are due to be repaid in a variety of foreign currencies rather than lira bonds.

The latest decree opens the door to the first big reimbursement of creditors since Efim went into liquidation.

In spite of the repeated promise of speedy repayment by Efim, reimbursements have been bogged down by bureaucratic problems, notably the tussle between the Italian government and the European commission in Brussels over alleged illegal state aid.

Mexican firm buys control of Rodman

By Laurie Morse in Chicago

ANACO Casa de Bolsa, the Mexican securities firm, has ended a year-long debate over the future of Chicago-based regional brokerage firm Rodman & Renshaw Capital by agreeing to buy a majority interest in Rodman for $23m.

Analysts said that if the purchase cleared regulatory review, it would be the first time that a Mexican financial company has acquired control of a US securities firm.

Rodman is the only remaining publicly-traded securities firm in Chicago. It began seeking buyers in September and had been expected to accept an offer from the New York investment company Josephthal, Lyon, and Ross.

Abaco's bid, at $10.50 per share for 51 per cent of Rodman's 4.3m outstanding common shares, is understood to be about $1 above the Josephthal bid.

The purchase will give Abaco, the brokerage arm of Monterey-based financial services company Abaco Grupo Financiero, an unusual presence in the US. It has an office in New York.

Rodman has 500 employees.

Weak Treasuries hit European sentiment

By Tracy Corrigan in London and Patrick Harverson in New York

FT FIXED INTEREST INDICES

	Nov 2	Nov 1	Oct 29	Oct 28	Oct 27	Year ago	High *	Low *
Govt.Secs.(UK)	102.85	102.35	102.87	102.85	102.98	94.00	103.80	93.28
Fixed Interest	124.13	124.25	124.35	124.35	124.83	107.73	125.20	106.67

Basis 100: Government Securities 15/10/26, Fixed Interest 1928. * for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 125.20 (1/9/93), low 50.53 (3/1/75).

GILT EDGED ACTIVITY

Indices	Nov 1	Oct 29	Oct 28	Oct 27	Oct 26
Gilt Edged Bargains	97.7	98.9	152.9	110.5	102.8
5-day average	112.5	114.8	118.2	107.3	108.8

* SE activity indices rebased 1974

THE WEAKNESS of the US Treasuries market continued to dampen sentiment in Europe's government bond markets yesterday.

In these unfavourable conditions, German bunds strongly outperformed other continental European markets, with the Bundesbank opening the way for further easing of market interest rates by announcing that today's auction of 13-day securities repurchase agreements will be at variable rates. Weak industrial production

GOVERNMENT BONDS

data also underpinned hopes that there could still be room for easing.

"The bund market tends to hold on to its value better, when there is uncertainty," said Mr Adrian James, a bond analyst at NatWest Capital Markets.

■ BOND markets in France, Spain and Italy, which were closed on Monday for All Saints' Day, all fell yesterday, with Italy recording the sharpest decline of about a point, which dealers attributed partly to political worries.

The Italian Treasury's latest issue of L4,500bn 10-year BTP notes were sold at a gross yield of 9.16 per cent, up from 8.88 per cent at the previous auction of 10-year notes on October 1.

Spain and Italy are "the markets where investors have the most to lose, having notched up very high returns this year. It makes sense to get out of the market, or move to the short end," said one trader. Because these markets are more volatile, they typically losa considerable ground when traders become bearish.

The French bond market also struggled yesterday, losing half a point while bunds posted a slight gain. This caused a further widening of the 10-year yield spread between French and German bonds to 22 basis points, compared with 14 basis points on Friday and about 5 basis points a week ago.

Dealers said that there was some surprise at the speed with which the spread had widened.

■ IN LONDON, gilts closed slightly higher after partially retracing earlier gains. Details of the Bank of England's quarterly inflation report were released too late to have much impact on prices, but traders said that the market may react negatively today, as the Bank's worsening inflation outlook is bearish for the bond market.

The report said that the Bank of England's near-term inflation expectations have risen and there is a "slight possibility" that underlying inflation could climb above 4 per cent next year, breaching the government's official target range.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	121.4684	-0.667	6.50	6.54	6.89
BELGIUM		9.000	03/03	112.7000	-	7.10	7.09	7.31
CANADA *		7.500	12/03	104.5000	-0.050	6.87	6.81	6.99
DENMARK		8.000	05/03	110.8750	-0.050	6.42	6.35	6.66
FRANCE	BTAN	5.750	11/98	101.2266	-0.067	5.46	5.39	5.57
	OAT	6.750	10/03	105.0600	-0.520	6.05	5.91	6.04
GERMANY		6.000	09/03	101.0100	+0.150	5.89	5.88	6.06
ITALY		10.000	09/03	103.4500	-1.065	9.36†	9.00	9.37
JAPAN	No 110	4.500	06/99	108.1468	+0.049	2.91	3.05	3.22
	No 157	4.500	06/03	108.8579	-0.027	3.66	3.89	3.81
NETHERLANDS		7.000	02/03	108.0700	+0.030	5.84	5.82	5.85
SPAIN		10.900	06/03	115.2500	-0.600	8.52	8.42	8.65
UK GILTS		7.250	03/98	103-01	+03/32	6.20	6.04	6.30
		8.000	06/03	107-27	+4/32	6.87	6.78	6.77
		9.000	10/08	116-07	+4/32	7.21	7.16	7.23
US TREASURY *		5.750	08/03	100-25	-2/32	5.64	5.41	5.32
		6.250	08/23	102-07	-7/32	6.09	5.89	5.89
ECU (French Govt)		6.000	04/03	110.7500	-0.280	6.44	6.38	6.70

London closing, *denotes New York morning session. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents). Prices: US, UK in 32nds, others in decimal. Yields: Local market standard. Technical Data/ATLAS Price Sources

■ US Treasury securities continued to slide at both ends of the market yesterday as investors reacted badly to news of stronger home sales.

By midday the benchmark 30-year government bond was down ¾ at 102⅛, yielding 6.058 per cent. At the short end of the market, the two-year note was down 1/32 at 99 [illegible], to yield 4.139 per cent.

Recent evidence that the economy is picking up steam has put the bond market on the defensive, and for the second consecutive day yesterday prices eased at the opening in the wake of fresh economic data. The trigger for the selling was the much bigger-than-expected 20.8 per cent surge in September home sales, the biggest monthly increase since September 1986.

Although analysts said the big rise in sales was primarily due to one-off seasonal factors, tha data deepened concerns among retail investors that accelerating economic growth could drag interest rates higher and eventually lead to a revival of inflation.

Futures trade in Europe beats records

By Tracy Corrigan

THE EXPANSION of European futures trading shows no sign of abating, with Europe's leading futures exchanges continuing to set new volume records.

Both Liffe in London and the Matif in Paris, Europe's two largest futures exchanges, have already traded more contracts than for the whole of last year. Liffe traded nearly 83m contracts in the first 10 months of 1993, compared with around 72m for 1992 as a whole. The Matif, meanwhile, has traded more than 60m contracts so far, compared with 55m last year.

Last month, Liffe traded more than 10m contracts in a single month for the first time, and open interest reached a record level of more than 4m contracts. While the two largest US exchanges, the Chicago Board of Trade and the Chicago Mercantile Exchange, continue to dominate the market, European exchanges are narrowing the gap.

Citicorp aims to tap Russian bills trading

CITICORP, the US bank due to open a fully-owned subsidiary in Moscow early in 1994, sees a big potential in Russia's fledgling Treasury bill trade, Reuter reports from Moscow.

"We believe there is potential for this market to grow and become very big. As soon as we open we will be registered as a government securities dealer," said Mr Miljenko Horvat, who heads Citicorp's Moscow operation.

"We are very interested in seeing the securities market develop in Russia. The T-bills give our clients with rouble balances an investment opportunity," he said.

Bankers say the accounts of foreign multinationals in Russia, many of which have to fly in cash to fund operations in the absence of western-style banking services, are up for grabs for western newcomers to the Russian banking scene.

In the absence of competition, Russian banks are charging commissions of up to 5 per cent per deal.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:16 pm on November 2

	Issued	Bid	Offer	Chg. day	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]					
DEUTSCHE MARK STRAIGHTS					
[illegible]					
SWISS FRANC STRAIGHTS					
[illegible]					
YEN STRAIGHTS					
[illegible]					
OTHER STRAIGHTS					
[illegible]					
FLOATING RATE NOTES					
[illegible]					
CONVERTIBLE BONDS					
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	60	4	8
Other Fixed Interest	4	10	1
Commercial, Industrial	317	216	880
Financial & Property	149	105	572
Oil & Gas	16	17	44
Plantations	1	0	6
Mines	17	61	61
Others	68	20	48
Totals	645	436	1,616

LONDON RECENT ISSUES

EQUITIES

Issue price p	Amount Paid up	Latest Renunc. date	1993 High	1993 Low	Stock	Closing Price p	+/-	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue price £	Amount Paid up	Latest Renunc. date	1993 High	1993 Low	Stock	Closing Price £	+/-
[illegible]							

RIGHTS OFFERS

Issue price p	Amount Paid up	Latest Renunc. date	1993 High	1993 Low	Stock	Closing Price p	+/-
[illegible]							

TRADITIONAL OPTIONS

- First Dealings Oct. 25
- Last Dealings Nov. 5
- Last Declarations Jan. 27
- For settlement Feb. 7

3-month call rate indications are shown in Saturday editions. Calls: Allied Radio, Aminex, Amstrad, Avesco, Brent Walker, Burton, Hanson Wts., Morrison (Wm.), Natl. Home Loan, P & P, Pacer Systems, Ranco, Select TV, Tadpole Tech., Tipbook. Put: Brent Walker. Puts & Call: Morrison (Wm.).

FT-SE ACTUARIES INDICES

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 Indices and the FT-SE Actuaries Industry Baskets are calculated by The International Stock Exchange of the United Kingdom and Republic of Ireland Limited. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1993. All rights reserved. The FT-Actuaries All-Share Index is calculated by The Financial Times Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries. © The Financial Times Limited 1993. All rights reserved. The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 Indices, the FT-SE Actuaries Industry Baskets and the FT-Actuaries All-Share Index are members of the FT-SE Actuaries Share Indices series which are calculated in accordance with a standard set of ground rules established by The Financial Times Limited and London Stock Exchange in conjunction with the Institute of Actuaries and the Faculty of Actuaries. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited.

LIFFE EQUITY OPTIONS

Option	Calls	Puts
[illegible]		

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices	Tue Nov 2	Day's change %	Mon Nov 1	Accrued interest	xd adj. 1993 to date
British Government					
1 Up to 5 years (24)	128.49	+0.08	128.82	1.62	10.63
2 5-15 years (23)	155.23	+0.18	155.94	1.57	11.06
3 Over 15 years (9)	177.31	+0.21	176.95	2.77	9.70
4 Irredeemables (6)	204.55	+0.32	204.75	0.18	13.41
5 All stocks (61)	151.71	+0.16	151.35	1.91	10.62
Index-Linked					
6 Up to 5 years (2)	188.70	+0.04	188.66	0.43	4.29
7 Over 5 years (11)	188.80	+0.25	188.42	0.84	4.29
8 All stocks (13)	180.27	+0.23	185.84	0.83	4.27
9 Debs & Loans (69)	143.41	+0.06	143.33	1.98	9.75

Average gross redemption yields	Tue Nov 2	Mon Nov 1	Year ago (approx.)
[illegible]			

Sales reach £59m thanks to the Far East and North America

Powerscreen ahead to £12.6m

By Paul Taylor

POWERSCREEN International, the Northern Ireland-based manufacturer of screening and stone crushing equipment, yesterday reported a 12.5 per cent increase in interim pre-tax profits helped by strong sales growth, particularly in the Far East and North America.

Pre-tax profits in the six months to September 30 rose from £11.2m to £12.6m – the 11th successive increase.

Turnover on continuing activities increased by 16 per cent to £59.4m against £51.3m, which included £5.92m from discontinued operations.

Earnings per share rose to 10.8p (9.7p) from which the interim dividend is being raised to 2p (1.8p). The shares closed up 3p at 372p.

Mr Shay McKeown, chief executive, attributed the profit improvement to the success of the group's strategy of focusing on its core manufacturing activities.

He said this had resulted in each subsidiary, with the exception of CPV which was acquired in September last year and therefore made no contribution to last year's interim results, producing increased turnover.

Powerscreen International Distribution, the biggest subsidiary which manufactures screening equipment, managed to lift its turnover by 15 per cent to £21.8m (£18.9m) buoyed by increased penetration of the Far Eastern market and the continued recovery in North America. Unit sales rose from 613 to 710.

Sales of a new jaw crusher launched in February, together with an upturn in the UK crusher market helped Brown Lenox lift its sales by 18 per cent to £12.9m (£11m.)

However, Matbro, which was acquired in 1991 and makes telescopic handling machinery for the agriculture and construction markets, recorded the biggest relative increase in turnover helped by strong exports to continental Europe. Sales jumped by 66 per cent to £11.3m (£6.91m).

The introduction of the subcontract labour system at Finlay, which manufactures washing and screening equipment, lifted both turnover and profits. Sales grew by 32 per cent to £7.71m (£5.51m).

The latest profit figures come after £700,000 of reorganisation costs related to CPV, which manufactures pressurised vessels mainly for the chemicals and food industries.

Overall, Mr McKeown said group order books remained strong, buttressed by new products and strengthened dealer networks. The group ended the period with net cash of £21.4m, up from £16.7m at the end of March.

Coal Investments bullish on prospects

By Michael Smith

THE CHAIRMAN of Coal Investments, the former Geevor group whose shares will recommence trading tomorrow, has told shareholders that pits acquired by the company will make operating profits immediately.

In a bullish statement, Mr Malcolm Edwards, former British Coal commercial director, also predicted that the steam coal market in England and Wales would exceed 50m tonnes by the middle of this decade, at the top end of market expectations.

With imports expected to be low "we are satisfied there is sufficient scope for several efficient mines to operate profitably alongside British Coal mines servicing core contracts [with generators]."

The shares are returning to the market following their suspension 18 months ago at 4.75p. However, it is a considerably different company following Mr Edwards' appointment as chairman and a restructuring.

A recent extraordinary meeting agreed the acquisition of a company which owns the Cwmgwili mine in south Wales and the raising of £1.35m through a rights issue and shares placing.

Coal Investments will acquire any rights that arise from applications made by Edwards Energy, a company owned by Mr Edwards, to operate five collieries owned by British Coal.

Mr Edwards said the acquisition of mines should be complemented by the development of inter-related businesses, including coal distribution in the UK, coal trading overseas, and "cautious investment" in coal mining overseas.

Ferranti asks banks for further £7m funds

By Paul Taylor

FERRANTI, the troubled defence electronics group, has asked its banks to provide an additional £7m in funds while it seeks to persuade shareholders to accept GEC's 1p-a-share bid.

Mr Eugene Anderson, Ferranti's chairman, said yesterday he was optimistic that the banks would respond positively to Ferranti's request "by the end of this week." The group made a presentation to the banks on Monday.

He added that the need to seek additional bank funds highlighted the seriousness of Ferranti's position and reiterated that the only alternative to GEC's bid, however unpopular, was receivership.

Nevertheless, Mr Anderson acknowledged that the recommended GEC offer faced a number of significant "hurdles," not least the opposition of some individual shareholders. About 10 per cent of Ferranti's outstanding equity is held by some 40,000 investors.

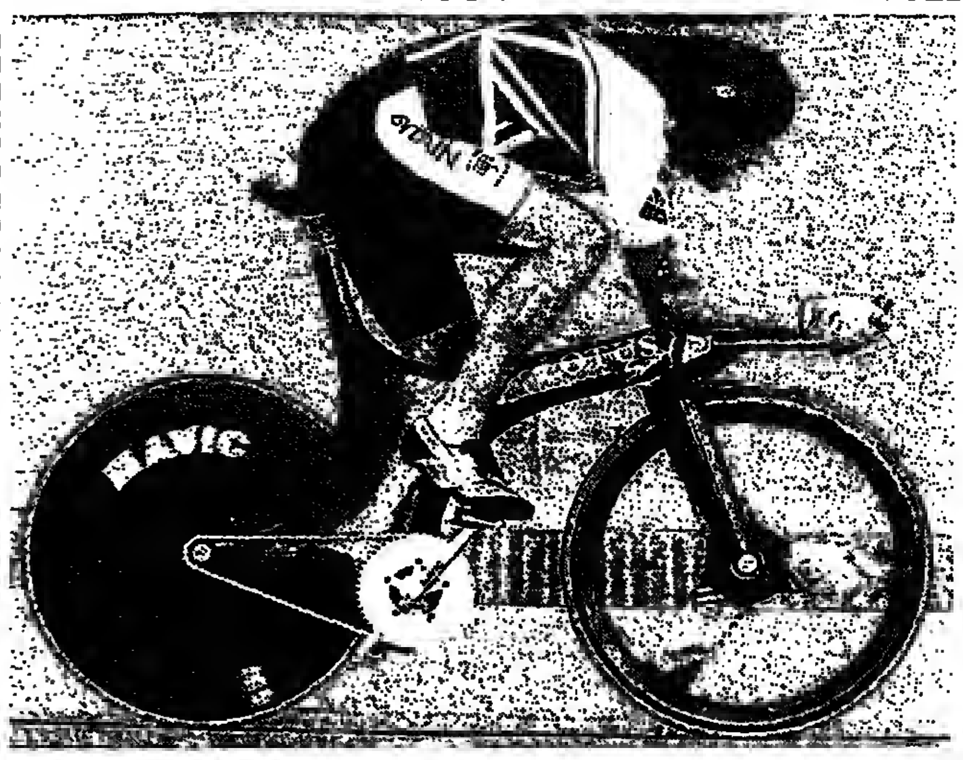
Many individual shareholders have reacted angrily to the token offer by GEC which promises them just £10m while at least £110m will go to the banks. They have commissioned Katz Associates, a City investment consultancy, to explore alternatives to the GEC bid.

GEC has made it clear that it is seeking the acceptance of at least 90 per cent of all classes of shareholders for the bid.

Ferranti has a particularly complicated share structure, and this requirement is acknowledged to be a significant obstacle by Ferranti. But one Mr Anderson maintains must nevertheless be overcome.

Mr John Katz, who heads Katz Associates, met Mr Anderson on Monday to convey shareholders' concerns about the terms of the bid. Mr Anderson in turn emphasised that there was no alternative bidder for the group, and that the GEC offer was "better than nothing."

Mr Katz said after the meeting that he had not been "pacified." However, Mr Anderson said Ferranti planned to try and persuade shareholders to back the GEC bid through a communications offensive, which would probably be launched over the weekend.



Chris Boardman powering his way to gold in the 1992 Olympics on the revolutionary Lotus cycle

Casket shrugs off slow start from Lotus-branded cycles

By Catherine Milton

ROAD-GOING versions of the high technology Lotus bicycle on which Chris Boardman won an Olympic gold medal last year are not yet in the shops to the disappointment of Casket, the UK company which bought the LotuSport brand.

However, interim pre-tax profits jumped 20.3 per cent to £2.13m, helped by FRS 3 which meant the company restated the comparative figure at £1.77m to include one-off costs amounting to £167,000 relating to reorganisation and closures.

Sales climbed from £50.1m to £51.8m for the six months to September 30.

The board declared an interim dividend of 0.4p (0.3p) out of earnings per share of 1.89p (1.56p).

Mr Joe Smith, chief executive, said the six Lotus-branded conventional cycles that the company launched in the summer "had got off to a slower start than expected".

He said: "We had anticipated bringing them out with the road-going version of the Chris Boardman Olympic bike. Sales of the conventional bikes were always planned to revolve around them."

He said Lotus had had a "certain amount of problems in making a sensible road bike". Casket will assemble the top of the range cycles from components designed by Lotus Engineering: "Lotus Engineering wanted a perfect design before it went to the market," Mr Smith said.

The setback would not hit results since the premium products had expected to give low sales.

The cycles division as a whole, which includes names such as Townsend, Falcon and British Eagle, returned operating profits ahead at £2.58m (£2.45m) for the six months to September 30 on sales ahead at £28.6m (£37.4m).

This year the company expects to assemble about 60 per cent of its units in the UK against 37 per cent in the comparative period.

Casket said imported bikes were now subject to EC duties totalling about 50 per cent, including an anti-dumping levy, while components attracted much lower rates.

The clothing division returned reduced operating profits of £273,000 (£336,000) on sales up at £23.3m (£22.7m) as market conditions remained difficult.

Gearing fell to 78 per cent (91 per cent) at the half-way stage as net assets increased to £14.9m (£13.1m) and borrowings fell slightly to £11.6m (£11.9m). Interest cover rose to 3.9 times (3.1 times).

Body Shop dispute in Singapore

By Maggie Urry

BODY SHOP International, the retail group which operates largely through franchisees, has become embroiled in a dispute with the head franchisee of its Singapore operation, where the group has 11 of its near 1,000 shops. It has been in Singapore for 10 years.

Ms Anne Downer, the head franchisee in Singapore, has issued a writ against Body Shop in London claiming damages after Body Shop instituted proceedings in Singapore. Body Shop claims Ms Downer's right to operate the Body Shop business in Singapore, and in Brunei, Indonesia, Malaysia, the Philippines, Thailand and Taiwan, has been terminated.

Body Shop said yesterday that it disputed all of Ms Downer's claims. One analyst said that Singapore was insignificant in group terms.

The dispute echoes an episode concluded in July last year when Body Shop won back control of six of its UK shops operated by Ms Pauline Rawle, a franchisee.

In its international operations, Body Shop has in recent years been pursuing a policy of moving to have each country's franchise operated locally rather than grouping countries together.

Ashtead rights to raise £20.4m

By Peter Pearse

ASHTEAD, the plant and machinery hire group, has announced a rights issue to raise £20.4m to fund expansion.

Mr Peter Lewis, chairman, explained that the board had seen a "window of opportunity. The recession has shaken the plant hire sector to bits" and, as a result, "there is no shortage of businesses to buy". With the bulk of the money raised, he foresaw "a series of acquisitions" in the UK. The group had waited until now, he said, when vendors were becoming more realistic about the value of their businesses.

A-Plant, the core business, currently has 57 outlets, or "profit centres", and Mr Lewis estimates it needs 130 for full national coverage.

Some £4m of the rights money has been earmarked to broaden the group's Sunbelt Rentals operations in the south-eastern states of the US. So far, expanding Sunbelt to six profit centres had been cautious, Mr Lewis said, but the business had now reached critical mass. Ashtead planned to double the six to 12 by April 1995.

About £500,000 of the cash raised will go towards the opening of an office of Ashtead Technology, the offshore services arm, in Singapore, to complement the operations in Aberdeen and Dubai.

Ashtead said that trading conditions had improved in the current year. In the five months to September, turnover rose by 24 per cent, mostly through volume growth. The group is highly operationally geared, so profits should respond sharply. A BZW research note has lifted the profits forecast for the current year from £4.5m to £5.2m. Last time profits were £2.76m.

The rights is on a 1-for-3 basis at a price of 280p per new ordinary. It is underwritten by Barclays de Zoete Wedd.

The shares closed at 324p, up 1p on the day.

Capital House buys bring funds to near £5bn mark

By Norma Cohen, Investments Correspondent

CAPITAL House Investment Management, a division of Royal Bank of Scotland, said it had acquired Brown Shipley Unit Trust Managers, which has £70m in assets.

Capital House has also acquired £100m of Brown Shipley's institutional funds, bringing its total of funds under management to just under £5bn. Terms of the acquisition were not disclosed.

The acquisitions are part of Capital House's strategy of growing through acquisition. Earlier this year it acquired the fund management businesses of two UK life insurance companies.

Capital House will retain three of Brown Shipley's unit trust staff, including its two leading fund managers, Mr Christopher Bomford and Mr John Cornes. The company said that in line with the recent trend in the unit trust industry, it would merge some of Brown Shipley's existing unit trusts into its own funds.

GPG halts Power offer

Guinness Peat Group, the UK investment vehicle for Sir Ron Brierley, the New Zealand entrepreneur, is not proceeding with its $17.32m (£7.3m) offer for Power Brewing Company of Australia.

It had intended to make an offer at 44 cents a share for 50 per cent of each member's fully paid ordinary PBC shares. However, GPG decided against it since PBC has proposed to adopt initiatives suggested by GPG to end PBC's joint venture with Queensland Breweries and the return of resulting cash to PBC shareholders.

Hanson expands housebuilding arm

Hanson has, through its Beazer Homes subsidiary, bought the housebuilding division of the Walker Group for £28.2m.

Beazer, Scotland's second largest housebuilder, has acquired Walker Homes (Scotland), Torwood Homes and Pinnacle Developments.

Abacus for market with £41m tag

ABACUS GROUP, a franchised distributor of electronics components, is coming to the market via a placing of shares valuing the company at £40.6m.

A total of 10.71m shares, 37 per cent of its enlarged capital, have been placed at 140p by NatWest Markets. The price represents a p/e of 18.9 and a notional gross dividend yield of 3.1 per cent for the year ended September.

The flotation has raised a net £3.1m of new money which will be used to repay a majority of Abacus' debt.

The company, which holds 25 distribution franchises from manufacturers such as 3M and National Semiconductor, reported pre-tax profits of £2.98m (£1.76m) for the year ended September and earnings per share of 7.4p (4.3p) on turnover of £30.9m (£23.4m).

Abacus was the subject of a £3.4m management buy-out led by Mr Brian Murdoch, its current managing director, and three colleagues in 1989.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Amber Day ......fin	0.25	Dec 18	2	1.35	3.1
Casket ......int	0.4	Feb 1	n3	-	n8
Finsbury Gth Tst ......fin	2	Dec 15	2	2.9	2.9
Powerscreen ......int	2	Jan 28	1.8	-	6.8
Rexmore ......int	1	Jan 21	0.7	-	1.75
Smith (J) Est ......int	1.55	Jan 13	1.4	-	4.2

†On increased capital. §USM stock.

Finsbury Growth Tst

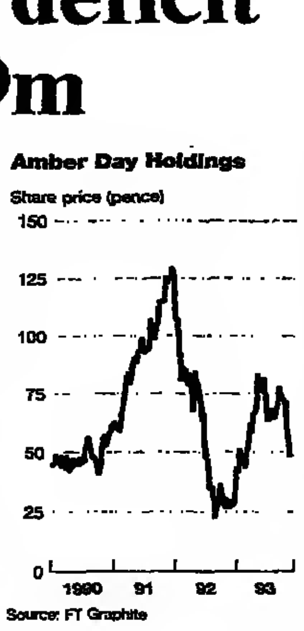
Net asset value per ordinary share of Finsbury Growth Trust improved from 85.6p to 112.9p over the 12 months ended September 30.

Net revenue fell to £1.37m (£1.41m), equal to earnings of 2.94p (3.14p). The 2p final maintains the total at 2.9p.

Amber Day reduces deficit to £2.09m

By Peter Pearse

Amber Day Holdings



Source: FT Graphite

MR PETER CARR, chairman of Amber Day Holdings for just seven weeks, said be believed that the decks had been cleared in the results for the year to July 31.

Pre-tax losses were reduced to £2.09m (£7.75m), despite exceptional costs totalling £8.99m.

The exceptionals represented the costs of the withdrawal from non-core businesses and the settlement of contractual obligations to Mr Philip Green, the ex-chairman and chief executive who resigned in September 1992, and Mr Stacey Ellis, who resigned as non-executive chairman this August.

The discount retailer has been dogged, Mr Carr said, by its past reputation, and tbe job of the new management team – which includes Mr Keith Paskins, finance director – was to "change shareholders' fortunes". However, there has been a "significant" cut in the final dividend from 2p to 0.25p making a total of 1.35p (3.1p) for the year.

The group has now stripped down to the What Everyone Wants retail chain whicb at July 31 was 52-strong but now numbers 56. Two more will open this month and a further six are planned for spring 1994.

Mr Carr said the business plan he and Mr Paskins had drawn up showed that discount stores were the fastest growing retailing sector – at about 10 per cent a year.

WEW's market share had been broadened by the recession as consumers had been forced to hunt for bargains. Its operating profits in the year rose from £10.1m (expanded by a £1m one-off profit) to £10.3m.

Group turnover grew to £106.1m (£96.5m) with £1.53m from discontinued operations – the imports and distribution division and the mens wear side. The former accounted for trading losses of £2.37m and closure costs of £3.21m. The latter, sold in 1991, accounted for a further £3.32m of exceptional costs, and Mr Green and Mr Ellis were paid £1.13m and £500,000 respectively.

Group operating losses before interest ahrank to £1.35m (£6.91m) and the retained loss for the period came to £4.74m (£13m). Losses per share emerged at 2.72p (7.61p), though on continuing operations earnings would have risen to 3.89p (3.86p).

Tunstall forecasts 21% growth to £6.4m

AN INCREASE of 21 per cent in pre-tax profits to £6.4m and a 1p lift in the dividend for the year ended September 30 1993 was yesterday forecast by Mr Michael Dawson, chairman of Tunstall Group, the Yorkshire-based snpplier of emergency and security systems, as it announced big expansion moves.

The shares closed 20p higher at 560p.

The forecasts corresponded with the announcement of the formation of Mion Electronics, a wholly owned subsidiary, to take over the existing contract design and manufacturing business.

Mr Dawson said the expansion of this division follows a year of significant growth and a continning strong order book by Tunstall Electronics.

Mion intends to build a 6,600 sq m factory near Barnsley, South Yorkshire.

Total capital expenditure over the next four years on land, buildings and new equipment would be about £11m with a further £1.5m required for working capital. It was anticipated that over 400 jobs would be created within two years.

Tbe funding wonld be financed by a regional assistance grant of £2.5m from the Department of Trade and Industry and, subject to contract, by a five-year loan of £5m from the European Coal and Steel Community.

Mr Dawson said the contract manufacturing activity had the potential "to produce significant profit growth" for the group.

Tunstall's estimated 1992-93 results for contract manofacture shows turnover of £3.6m (1991-92 actual £400,000), percentage gross margins of 30 (23) and profits before interest of £500,000 (nil).

Pre-tax profits would total £6.4m (£5.3m), sales £44.5m (£40.5m) and earnings per share 26.4p (21.6p).

Cash balances were expected to stand at £6.4m (£4.3m).

The directors would propose a final dividend of 4.5p (3.75p) making a total of 7p (6p).

Tarmac's recuperation at a critical point

Andrew Taylor on the troubled construction group's progress on the road to profit

THE RECUPERATION of Tarmac, the lossmaking construction and building materials group, has reached a crucial point.

The announcement on Monday of plans to float off its Ruberoid roofing materials subsidiary marks the end of a period of surgery during which Mr Neville Simms, Tarmac's chief executive, will have raised almost £300m by disposing of unwanted businesses.

The next step will be to see how Tarmac's remaining interests perform as the construction market, particularly housebuilding in tbe UK, begins to improve.

The group bas savagaly reduced costs and made substantial write-downs as it has fought to regain financial health. Net borrowings at the end of last year – including Tarmac's share of off-balance sbeat finance of £100m and £99.3m of auction market preferred stock – stood at £677m, equivalent to 73 per cent of shareholders funds of £924m.

This is expected to fall to about £260m, compared with increased shareholders' funds of £1.05bn, should Rnberoid raise £70m as expected, and following Tarmac's £215m rights issue.

To continue the medical metapbor: tbe patient is recovered enough to get out of bed but it remains to be seen if he will aver run again.

Tarmac's rise and fall has been dramatic. Between 1978 and 1988 its annual pre-tax profits rose from £26.5m to £393m. Last year, after write-downs, it made a pre-tax loss of £350.3m.

The key to Tarmac'a future will be the strength of its housebuilding operations, says Mr Mark Stockdale, construction analyst for SG Warburg Securities.

He estimates that capital employed by Tarmac in housebuilding has fallen from a peak of £750m at the end of 1988 to about £250m now. Overhead costs in the housing division hava fallen from more than £70m annually to an estimated £50m this year.

Tarmac is already beginning to reap the benefit from this improved efficiency.

Net margins on house sales are thought to be about 8 per cent this year compared with a low of 2.5 per cent in the first six months of 1992.

Annual ontput of homes, bowever, has fallen from a peak of 12,000 in the late 1980s to an estimated 7,500 this year.

This total is expected to rise again as the housing market continues its recent recovery. Tarmac will therefore need to use its renewed financial strength to replace its stock of housing land.

Elsewhere prospects look less bright.

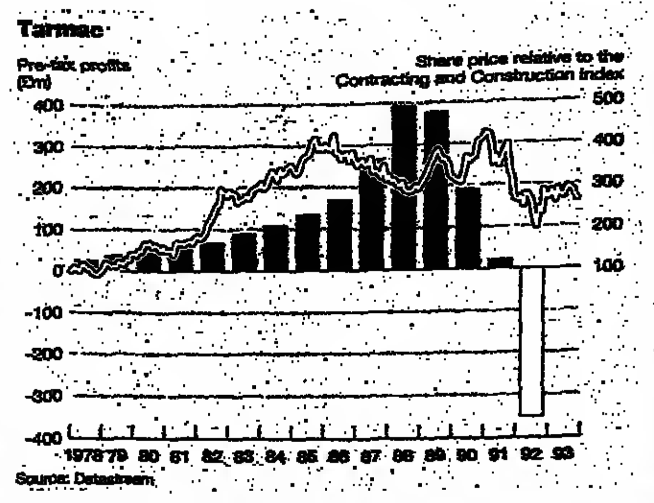
Tarmac's strategy is to concentrate on the three core businesses of housebuilding, construction and quarry products. These last two show limited prospects for improvement, with little recovery expected in construction output outside of housebuilding.

Competition for work could become even more intense if the government cuts road building and other large scale infrastructure projects in its unified budget later this month.

Cuts in public sector transport and bousing investment might also have a detrimental effect on attempts by the big quarry companies – Tarmac, Redland and RMC – to force through higher prices.

A cause of the group's collapse was its failure to recognise the intensity and duration of the recession.

Tarmac



Source: Datastream

This meant that management was slow to rein back housing land purchases and investment in commercial property development when property values fell sharply.

Tarmac has now announced a complete withdrawal from commercial property development.

It has also sold a large part of its Econowaste waste disposal operations along with other peripheral businesses, soma of them expensively acquired in the mid to late 1980s.

Still to be decided is the future of two other businesses described by Mr Simms as "non-core".

These are the building materials division, which manufactures bricks and concrete blocks, and the US aggregates and concrete operations in Florida and the Carolinas.

The recent decision by Tarmac to awap its clay tile operations for the brick making interests of rival building materials group Marley is seen by some as a prelude to a sale by Tarmac of the entire enlarged brick business.

It may, however, decide to keep, or even expand, its US interests, given the recent improvement in the outlook for the US economy.

Warburg is forecasting another pre-tax loss of up to £20m for this year after further goodwill write-offs, mainly against Ruberoid which was acquired for £141.3m in 1988. The investment bank, however, is forecasting a return to profits of £95m for Tarmac next year, rising to £150m in 1995.

Tarmac's share price since aterling left the European exchange rate mechanism last September has more than doubled from 61p to 135p, matching a similar rise in the FT-Actuaries construction and contracting share index.

The market appears pleased with progress so far but awaits evidence that the company, having got this far, can produce good returns from its reorganisation.

To switch from a medical to a legal metaphor: the jury is still out.

J Smith ahead to £0.78m

HELPED by lower interest charges of £237,000, against £368,000, pre-tax profits of James Smith Estates, the USM-quoted property investment concern, improved from £689,000 to £775,000 for the six months ended September 24.

After tax of £256,000 (£229,000) earnings per share were 3.37p (2.99p) while the interim dividend is increased to 1.55p (1.4p).

The directors pointed out that gross rental income was affected by the incidence of a small number of voids and fell slightly from £1.18m to £1.16m. However, they believed that full-year results would show a resumption of rental income growth.

Swithland seeks SE listing

By Paul Cheeseright, Midlands Correspondent

SWITHLAND, the Midlands car retailer, is seeking a Stock Exchange listing through a share placing which will give the group a market value of £21.4m.

The placing involves 18.5m shares, about 70 per cent of the issued equity, at a price of 81p each. Of this, 12.34m will be new shares, the sale of which will raise £9.05m net.

The balance of 6.1m shares is owned either by NatWest Ventures, Swithland's venture capital backer for the past two years, or Mr John Hayes, the group's founder and chief executive, and members of his family.

Ionian Corporate Finance is sponsoring the placing, for which the broker is Harris Allday Lea & Brooks.

Trading in the shares will start on November 15, provided buyers have been found for the issue of new shares. If not, the issue will be cancelled.

If the offering is completely sold, the Hayes family's holding in Swithland will be 29.96 per cent.

The share placing represents both re-financing of the group and clearance of the decks for expansion.

Of the £9.05m raised, £0.5m will be used to redeem preference shares held by NatWest Ventures, £322,000 to buy from Mr Hayes a piece of land over which the group has an option and about £6m to retire debt, reducing gearing from 240 per cent to 40 per cent.

The balance of the funds will be kept in reserve for expansion. "Over the next three years we're looking to acquire another 10 retail operations, all within the Central TV area", said Mr Hayes.

Swithland now has 16 retail centres in the Midlands; it specialises in selling nearly new and used cars and, to 85 per cent of its customers, providing related finance.

Expansion will take place against the background of concentration in car retailing. "Groups have been getting bigger over the past two and a half years. Over the next five to seven years, about 20 groups will emerge which will dominate the industry," Mr Hayes said.

B Elliott calls for £5.4m and acquires dies maker

By Jean Marshall

B ELLIOTT, the electrical and mechanical engineer, is acquiring Deeming Taylor, the specialist dies and tooling products manufacturer, for a maximum £771,500 in cash.

Partly to fund the acquisition the company is calling for £5.4m net through a 1-for-3 rights issue of 9.1m new ordinary shares at 63p each. Yesterday the shares closed 3p up at 75p.

The issue, which is fully underwritten by Beeson Gregory, is also offered on the basis of one ordinary share for every 2.13, 7.5 per cent preference shares.

B Elliott has also announced a turnround from restated losses of £764,000 to pre-tax profits of £1.26m for the six months to October 31. Turnover amounted to £40.7m against £45.8m last time which included £10.6m from discontinued operations. Operating profits from continuing operations improved to £1.97m (£1.5m).

Earnings per share worked through at 3.42p against losses of 57.44p last time. There is again no dividend.

Mr Somerset Gibbs, chairman, said the company had made excellent progress since completing the refinancing at the end of 1992, when 24.6m new shares were issued.

As part of its restructuring programme the group's machine tool businesses had either been closed or divested and that process had concluded with the sale of the assets and undertaking of Butler Machine Tool in February 1993.

The continuing businesses were performing to plan and proceeds from the rights issue would also be used to fund the retention of the Phillidas and Newall businesses, Mr Gibbs said.

For the year to October 31 1992 Deeming Taylor achieved gross profits of £353,000 on sales of £853,000. The net book value of the trading assets, plant and equipment being acquired is expected to be a minimum £394,000, including some £90,000 cash.

Rexmore stages strong recovery to £688,000

By Peter Franklin

THE SALE of its lossmaking timber businesses coupled with a reduction in interest costs helped Rexmore, the contract furnishings group, to achieve a strong recovery with a pre-tax profit of £688,000 for the six months to October 2.

The outcome compared with a deficit of £143,000 last time and losses of £1.36m at the previous year end. Turnover for the 26 weeks amounted to £15.5m against £20.1m – including £5.25m from discontinued operations. Comparisons have been adjusted to conform with FRS 3.

Interest payments for the interim period were cut from £322,000 to £177,000.

Further reductions in borrowings and interest costs will materialise from operating profits and as the deferred consideration due from disposals is received, said Mr Michael Rosenblatt, chairman.

All operations performed well and indications were that the improvement would be maintained, he said.

The interim is raised by 43 per cent from 0.7p to 1p, payable from earnings of 4.44p per share (0.83p losses).

The shares closed 11p up at 82p.

Mr Rosenblatt, who founded the company almost 50 years ago, is to step down as chairman but will continue to serve as a non-executive director.

Mr Michael Rosenblatt will become chairman and Mr Norman Rosen, managing director.

NEWS DIGEST

Celsis Intl £561,000 in the red

CELSIS International, the specialist in rapid microbial testing which came to the market in a £12.4m flotation in July, reported a pre-tax loss of £561,000 for the six months to end-September.

That compared with a deficit of £460,000 and was struck on turnover up from £67,000 to £79,000. Losses per share were 1.05p (1.03p).

Net interest income amounted to £185,000 against a £16,000 charge last time. Cash on deposit at the end of October was £12.2m.

Trafalgar House in bond purchase deal

Trafalgar House has entered into option arrangements with Swiss Bank Corporation under which it may acquire £39m nominal of 10¾ per cent bonds due in December 1993 or February 1994.

The company may be obliged to purchase the bonds in February 1994. It expects to use part of the proceeds of a proposed rights issue to discharge any obligation arising as a result of the arrangement.

Should Trafalgar House acquire the bonds it will retire them, leaving a nominal £61m outstanding.

BDA improves to £28,000

In spite of continuing difficult trading conditions BDA Holdings, the architect, consultant and property developer, achieved a rise in pre-tax profits from £6,000 to £28,000 for the half year to end-July.

Turnover amounted to £1.03m (£733,000) and earnings emerged at 0.15p (0.03p).

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TENDER NOTICE

UK GOVERNMENT ECU TREASURY BILLS

For tender on 9 November 1993

1. The Bank of England announces the issue by Her Majesty's Treasury of ECU 1,000 million nominal of UK Government ECU Treasury Bills, for tender on a bid-yield basis on Tuesday, 9 November 1993. An additional ECU 50 million nominal of Bills will be allotted directly to the Bank of England.

2. The ECU 1,000 million of Bills to be issued by tender will be dated 11 November 1993 and will be in the following maturities:
ECU 200 million for maturity on 16 December 1993
ECU 500 million for maturity on 10 February 1994
ECU 300 million for maturity on 13 May 1994

3. All tenders must be made on the printed application forms available on request from the Bank of England. Completed application forms must be lodged, by hand, at the Bank of England, Securities Office, Threadneedle Street, London not later than 10.30 a.m., London time, on Tuesday, 9 November 1993. Payment for Bills allotted will be due on Thursday, 11 November 1993.

4. Each tender at each yield for each maturity must be made on a separate application form for a minimum of ECU 500,000 nominal. Tenders above this minimum must be in multiples of ECU 100,000 nominal.

5. Tenders must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity date of the Bills for which application is made, the yield bid and the amount tendered for.

6. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with ESO, Euro-clear or CEDEL, Bills will be credited in the relevant systems against payment. For applicants who have requested definitive Bills, Bills will be available for collection at the Securities Office of the Bank of England after 1.30 p.m. on Thursday, 11 November 1993 provided cleared funds have been credited to the Bank of England's ECU Treasury Bills Account No. 59005516 with Lloyds Bank Plc, International Banking Division, PO Box 19, Hays Lane House, 1 Hays Lane, London SE1 2HA. Definitive Bills will be available in amounts of ECU 10,000, ECU 50,000, ECU 100,000, ECU 500,000, ECU 1,000,000, ECU 5,000,000 and ECU 10,000,000 nominal.

7. Her Majesty's Treasury reserve the right to reject any or part of any tender.

8. The arrangements for the tender are set out in more detail in the Information Memorandum on the UK Government ECU Treasury Bill programme issued by the Bank of England on behalf of Her Majesty's Treasury on 28 March 1989, and in supplements to the Information Memorandum. All tenders will be subject to the provisions of that Information Memorandum (as supplemented).

9. The ECU 50 million of Bills to be allotted directly to the Bank of England will be for maturity on 13 May 1994. These Bills may be made available through sale and repurchase transactions to the market makers listed in the Information Memorandum (as supplemented) in order to facilitate settlement.

10. Copies of the Information Memorandum (and supplements to it) may be obtained at the Bank of England. UK Government ECU Treasury Bills are issued under the Treasury Bills Act 1877, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.

Bank of England
2 November 1993

This Advertisement appears as a matter of record only

Semi-Tech (Global) Company Limited

announces the completion of the sale of its 51% interest in

The Singer Company N.V.

to

International Semi-Tech Microelectronics Inc.

for

HK$6,613,685,910

Advisors to the Company

SOMERLEY LIMITED

BT ASIA LIMITED
A member of the Bankers Trust Group

Advisor to the independent shareholders of the Company

STANDARD CHARTERED ASIA LIMITED

August 1993

This advertisement appears as a matter of record only

International Semi-Tech Microelectronics Inc.

has completed the purchase of 51% of

The Singer Company N.V.

from

Semi-Tech (Global) Company Limited

for

US$847,908,450
funded by

US$654,193,000
Senior Secured Discount Notes due 2003

and

C$795,000,000
42,400,000 Class A Subordinated-Voting Shares (underwritten and sold)

August 1993

This is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus.

US$654,193,000

International Semi-Tech Microelectronics Inc.

Senior Secured Discount Notes due 2003

Price 45.858%

Copies of the Prospectus may be obtained in any State from the undersigned in compliance with the securities laws of such State.

Kidder, Peabody & Co.
Incorporated

August 1993

This announcement appears as a matter of record only

Secondary Offering

C$795,000,000

International Semi-Tech Microelectronics Inc.

42,400,000 Class A Subordinate-Voting Shares
(Sold on an instalment basis)

Price: C$18.75 per share
of which C$7.50 is payable on closing

RBC Dominion Securities Inc. **First Marathon Securities Limited**

ScotiaMcLeod Inc. **Gordon Capital Corporation** **Nesbitt Thomson Inc.**

Burns Fry Limited **Wood Gundy Inc.**

Richardson Greenshields of Canada Limited **Midland Walwyn Capital Inc.**

Toronto Dominion Securities Inc. **Levesque Beaubien Geoffrion Inc.**

August 1993

COMMODITIES AND AGRICULTURE

Zinc producers plan smelter closures

By Kenneth Gooding, Mining Correspondent

EUROPEAN ZINC producers decided yesterday to press ahead rapidly with a scheme to eliminate substantial over-capacity by the permanent closure of one or two smelters. The cost of the so-called "shutdown" scheme would be paid for by the rest of the industry.

An independent assessor has been taking soundings during confidential discussions with industry representatives for the past three months, and his report, presented to senior executives yesterday, showed that the scheme was feasible and that there were a number of smelters willing to be considered for closure.

"This is a very serious project now," one industry executive said after the meeting in Brussels. The producers will now work on the difficult details – how much capacity should be closed, how much it would cost and how the rest of the industry would contribute towards the cost.

They must also get European Commission approval, but this should not prove difficult because the Commission gave the go-ahead to a similar scheme in 1982. That scheme came to nothing because prices rose, easing pressure for cuts.

LME WAREHOUSE STOCKS (As at Monday's close) tonnes		
Aluminium	+12,875	to 2,302,125
Copper	-1,350	to 612,250
Lead	+5,850	to 293,300
Nickel	-226	to 116,988
Zinc	+4,250	to 832,600
Tin	-140	to 20,475

However, last year Union Minière, on its own account, closed its zinc smelter at Overpelt, Belgium, and with it 100,000 tonnes of capacity.

Some zinc traders hoped to hear something more dramatic from the European producers yesterday so, after touching $961 a tonne at one stage, zinc for delivery in three months on the London Metal Exchange eased back to close last night at $951, up $2.50 a tonne.

"The market was holding its breath and anticipating some sort of cutback now, not more talks," said Mr Angus MacMillan, research manager at Billiton-Enthoven Metals, part of the Royal Dutch/Shell group.

He said a fundamental refined zinc supply surplus, likely to be about 420,000 tonnes this year, was putting severe pressure on prices, which reached a six-year low of $927 a tonne in July. The closure of only one smelter might not be enough to bring the market back into balance.

While European producers seem unified over the shutdown scheme, they are split over whether to restrict imports from the Commonwealth of Independent States, which are adding to the industry's severe difficulties.

Attacks on Agip halt oil output

By Paul Adams in Lagos

AGIP'S Nigerian oil operation has lost more than 270,000 barrels of production since October 22, when attacks by local communities forced the company to close its Obama and Clough Creek flow stations.

Agip says the violence stems from mishandling of compensation for the local communities by a development commission set up by the Nigerian government. The company has asked the oil minister, Mr Don Etiebet, to take action over this and other disputes in Rivers state, Nigeria's main oil-producing region.

"We need to make the government aware," a company spokesman said. He said some of the local communities' demands for compensation "bear on revenue allocation yet the commission has no programme which is binding".

Agip operates five oil fields in the Niger delta, producing on average 150,000 barrels a day. It owns 20 per cent of the venture, along with the Nigerian National Petroleum Corporation (60 per cent) and Philips Petroleum, and plans to open a new 20,000 b/d field next year.

The trouble at Obama started when the development commission awarded money from Agip, which was intended for the chief of the community, to a former official of the government. The money was to compensate for pollution of the water through dredging the local swamp.

Although Agip provided water and electricity for the area, villagers loyal to the chief marched on the flow station, forcing Agip to close it with the loss of 205,000 barrels by Monday. When a negotiation team arrived by helicopter, the pilot was attacked and badly injured.

The dispute at Clough Creek is also over demands from rival communities. When Agip built a school for the local village another community demanded a health centre. The threat to oil workers led to a loss of production of about 73,000 barrels last week.

Police were handling the dispute yesterday and Agip expected to resume operations within 24 hours.

However, the company said there had been "some agitation" at the Tebidaba flow station, but no loss of production. There had also been "numerous problems" at the Obrikom-Obiafu gas re-injection plant.

Nigeria's burden of proof

Arrests have been made but the state oil business has still to satisfy the industry that its reforms are working, writes Paul Adams

THE interim government's purge of the Nigerian National Petroleum Corporation (NNPC) has stopped some of the racketeering that became rife during former president Ibrahim Babangida's regime – but it will take more than a few arrests to convince the oil industry that a reform of the public sector oil business is under way.

After the discovery of unauthorised payments to store fuel in tankers offshore, NNPC's managing director, Mr Edmund Daukoru, finance director Mr O. Okwara, and company secretary Dr Beneni Briggs were arrested last month. Mr Daukoru, Mr Okwara and five other senior officials were formally charged yesterday with stealing $41m. About 20 senior officials in NNPC have been suspended.

The plan to charter two very large vessels for storing about 1m tonnes of fuel through Lenoil, an independent oil and marketing company, was approved by Mr Chu Okongwu, who was oil minister in 1992. Although each ship was costing Nigeria an estimated $49,000 a day, the so-called strategic reserve never supplied any fuel.

Nigeria has adequate storage capacity on shore but its fuel shortages stem from large-scale smuggling, and crumbling refineries and distribution systems run by subsidiaries of NNPC.

Mr Philip Asiodu, who became oil minister in January this year, rejected the chartering scheme and ordered instead the purchase of smaller tankers secondhand, also through Lenoil. Although Mr Asiodu blocked a demand by Lenoil for $62m, it is alleged that most of the payment went through shortly after he left office in August, leading to the arrest of the NNPC directors.

Mr Len Adesanya, managing director of Lenoil, was also arrested. Mr Adesanya was to be in the new management following the takeover of Texaco Nigeria in July. The deal was opposed by the minority Nigerian shareholders, who allege that the buyer, TNP Holdings, registered in the British Virgin Islands, was funded indirectly by the military regime. The takeover is under investigation by Nigeria's Securities and Exchange Commission.

Industry analysts say that close links between Mr Adesanya's operations and Mr Babangida's military regime went right to the top and that Lenoil was one of the two main operators in the smuggling of about 100,000 barrels a day of fuel.

Since Mr Don Etiebet took over as petroleum minister in late August, the boards of NNPC and its refining and marketing subsidiaries have been dissolved, and the axe has fallen on several other deals agreed by his predecessor. Mr Etiebet has cancelled all the crude oil lifting contracts signed by Mr Asiodu. Mr Etiebet said the contracts were to be renegotiated because "people are hawking crude oil . . we want to know the exact number of people who are lifting and whether they comply with our objectives".

Mr Etiebet has invited new applications to buy Nigerian crude oil from companies established internationally as traders or refiners of oil products or which are investing in upstream exploration in Nigeria. The minister has also invited tenders to supply fuel from internationally recognised companies.

The minister has cancelled 16 oil exploration licences awarded by Mr Asiodu to indigenous prospecting companies. According to industry sources, the approvals were rushed through without the normal procedures and many of the licencees do not have the technology or resources to carry out exploration.

NNPC's acting managing director is reviewing the sale of an extra 5 per cent stake in an oil production venture to one of its equity partners, Elf Aquitaine, for around $520m.

The joint venture is operated by Shell and produces half of Nigeria's 1.8m b/d oil output. July's sale to Elf broke the 40 per cent limit on foreign ownership in oil joint ventures.

The private sector in Nigeria and international creditors would like to see the shake-up in NNPC go further. Recommendations by an economic conference chaired by Mr Ernest Shonekan in February, which included a reduction in state control of the oil and gas industry, have been not been implemented.

In a follow-up to that conference today the private sector will press for the measures to be passed in the January budget. The budget monitoring committee set up by Mr Shonekan to review government spending under the Babangida regime has submitted the report. The document is highly critical of 'dedication accounts' that diverted about 110,000 barrels of oil from central revenue into offshore accounts.

Mr Shonekan has made transparency in government revenue one of his government's main target, but he has yet to show that he can bring oil revenue under control.

Crumbling refineries and distribution systems cause shortages, despite adequate storage capacity

Russian freight tariffs up 50%

RUSSIA has raised rail freight tariffs by 50 per cent for oil, metals, coal and other goods transported within the Commonwealth of Independent States (CIS) but export cargoes will not have to pay the higher fees, *reports Reuter from Moscow.*

A ministry telegram obtained yesterday said the state pricing committee decided on October 20 to raise tariffs within the CIS (including Georgia and Azerbaijan).

But the increase did not apply to cargoes destined for export to non-CIS markets "through Russian railway stations located near ports or state frontiers".

The telegram, dated October 19, said freight charges would be based on tariffs set in 1989 multiplied by 2.463 for wagon and container dispatches, and by 4,922 for smaller deliveries.

With the exception of export cargoes, 20 per cent value added tax will be maintained for all goods, the telegram said.

It was not clear if the new fees will also apply to imports, including metal ores and concentrates brought to Russia for tolling – refining the metal in Russia and selling it to export markets.

Many companies complain high rail tariffs, taxes and other costs are making trade unprofitable.

Trade sources say there have been rumours of a further rise in freight tariffs by 15 or 20 per cent this month.

One official source said there would probably not be any increases, at least until December.

Cocoa and coffee lift LCE trade

By Alison Maitland

COCOA and coffee futures and options had another active month on the London Commodity Exchange last month, lifting trading volumes 30 per cent compared with a year ago.

The cocoa futures market, where average daily turnover was 8,226 lots, up 51 per cent on October 1992. Open interest – the number of contracts not liquidated – was up 74 per cent at 149,589 lots.

Total options turnover rose 83 per cent, with particular interest in cocoa options, up 187 per cent, and robusta coffee options (69 per cent), though trading in robusta futures was down 20 per cent on a year ago.

Volumes overall were 24 per cent down on September.

Nymex energy futures system in London

By Tracy Corrigan

ACCESS, the electronic system for dealing energy futures developed by the New York Mercantile Exchange, will go live in London tomorrow.

There are already 100 Access screens in the US, but the 10 screens in London will be the first outside Nymex's domestic market. Nymex officials said 70 traders in London had been trained to use the screens, which operate outside normal Nymex trading hours. The next stage is to install screens in the Far East.

Average daily volume on Access reached 2,000 contracts in October, ahead of targets.

According to dealers, the success of the system is partly due to the global nature of the oil market. Oil futures can used by oil producers, and companies which need to buy large quantities of oil, to hedge their exposure to price changes.

Six leading brokerage houses have taken screens, which will give access to a pool of around 100-150 accounts each, a Nymex official said. One of the London screens has been taken by Mobil, reflecting interest among commercial companies, as well as brokers.

Dealers said the arrival of Access screens was likely to boost volume on London's International Petroleum Exchange, since it will allow dealers to trade the spread between the IPE's Brent and Nymex's WTI (West Texas Intermediate) contracts during the whole of the London trading day. Currently, traders cannot do this until Nymex opens at 9.45 local New York time.

● Chevron Corporation of the US has been awarded exploration rights for a 1,520 square kilometre bloc in the East China Sea under an agreement signed at the weekend with the China National Offshore Oil Corporation.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,560-1,625 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.50 *(same).*

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.33-0.42.

COBALT: MB free market, 99.8 per cent, $ per lb, in warehouse, 11.40-12.00 (11.55-12.10); 99.3 per cent, $ per lb, in warehouse, 10.65-11.10 (10.65-11.20).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 90-108 (95-110).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.55-2.65 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.45-5.25.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 27-39 (27-37).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, *cif, 1.30-1.45 (same).*

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 6.90 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

News that OPEC cut crude OIL output in October failed to drive prices higher yesterday. London December futures for the world benchmark Brent Blend crude briefly fell below $15.90 per barrel, down 30 cents from Monday when the market tried a rally. A Reuter monthly survey of industry estimates put October production by OPEC (Organisation of the *Petroleum Exporting Countries*) at 24.67m barrels daily. This was down 140,000 from the Reuter estimate for September and 450,000 lower than a year ago – when prices were $4.0 higher. If OPEC has curbed excess supply, however, demand for oil has remained stubbornly weak in a recessionary world economy and this was cited as the other reason for the decline of 20 per cent in world oil prices this year. OPEC leaders, however, believe that prices are poised to head higher. GOLD attempted a tentative recovery after the sharp fall, lead by silver, on Monday. But after being *"fixed"* at $363 a troy *ounce* in the afternoon, gold closed in London last night down another $1.75 an ounce at $361. Silver closed another 3.5 cents down.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Dec)		+ or -
Dubai	$14.15-4.22u	-0.12
Brent Blend (dated)	$15.56-5.60	-0.14
Brent Blend (Dec)	$15.90-5.92	-0.12
W.T.I. (1 pm est)	$17.02-7.05u	-.145
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$177-180	-2
Gas Oil	$167-168	-1
Heavy Fuel Oil	$62-64	
Naphtha	$149-152	-1.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$361.00	-1.75
Silver (per troy oz)♣	420.0c	-3.5
Platinum (per troy oz)	$366.75	-2.60
Palladium (per troy oz)	$126.50	+0.75
Copper (US Producer)	84.5c	
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	12.20r	
Tin (New York)	219.5c	+1.5
Zinc (US Prime Western)	Unq	
Cattle (live weight)†	121.09p	+1.54*
Sheep (live weight)†♠	79.25p	+0.40*
Pigs (live weight)†	68.02p	+3.38*
London daily sugar (raw)	$265.80	-2.90
London daily sugar (white)	$295.50	-0.50
Tate and Lyle export price	£291.00	-1.50
Barley (English feed)	£105.0z	
Maize (US No. 3 yellow)	£120.5	
Wheat (US Dark Northern)	£168.0	
Rubber (Dec)♥	61.75p	+0.50
Rubber (Jan)♥	61.50p	
Rubber (KL RSS No 1 Jul)	*208.0m*	
Coconut oil (Philippines)§	$425.0v	-5.0
Palm Oil (Malaysian)§	$342.5u	+5.0
Copra (Philippines)§	$285.0	
Soyabeans (US)	£183.5w	+0.5
Cotton "A" Index	64.35c	
Wooltops (64s Super)	358p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Nov v-Jan/Feb u-Dec t-Sep/Oct w-Nov/Dec ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

No.7 RAW SUGAR - LCE (cents/lbs)	Close	Previous	High/Low
Mar	10.65	10.66	10.72 10.61
May	10.84	10.86	10.92 10.81

Turnover 195 (88) lots of 50 tonnes.

COCOA - LCE (£/tonne)	Close	Previous	High/Low
Dec	922	930	932 920
Mar	953	964	965 954
May	961	969	970 961
Jul	961	969	970 961
Sep	961	969	969 962
Dec	944	950	944
Mar	946	950	950 945
May	948	953	953
Jul	956	960	956

Turnover: 3747 (2901) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Nov 1 916.83 (931.60) 10 day average for Nov 2 925.65 (934.47)

COFFEE - LCE ($/tonne)	Close	Previous	High/Low
Nov	1201	1193	1203 1188
Jan	1219	1213	1221 1206
Mar	1208	1201	1206 1194
May	1198	1193	1193 1188

Turnover: 1610 (1933) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Nov 1 Comp. daily 69.62 (70.11) 15 day average 68.43 (68.32)

POTATOES - LCE (£/tonne)	Close	Previous	High/Low
Apr	83.7	84.9	84.5 83.0
May	96.5	96.8	99.0 98.5

Turnover 93 (98) lots of 20 tonnes.

FREIGHT - LCE ($10/index point)	Close	Previous	High/Low
Nov	1353	1349	1360 1350
Dec	1359	1352	1360 1355
Jan	1365	1355	1365 1360
Apr	1373	1365	1375
BFI	1317	1316	1317

Turnover 160 (87)

GRAINS - LCE (£/tonne) Wheat	Close	Previous	High/Low
Nov	97.00	97.75	97.50 97.00
Jan	99.15		99.45 99.10
Mar	101.10	101.85	101.35 101.10
May	103.05		103.50 100.10
Jun	104.40		104.25
Nov	93.75		93.95
Barley	**Close**	**Previous**	**High/Low**
Nov	99.90	101.00	100.50 100.00
Jan	102.50	103.05	102.50
Mar	104.50		104.50
May	106.60		106.15 106.00

Turnover: Wheat 373 (21) Barley 121 (36)
Turnover lots of 100 Tonnes.

CRUDE OIL - IPE ($/barrel)	Latest	Previous	High/Low
Dec	15.93	16.21	16.30 15.87
Jan	16.16	16.46	16.49 16.10
Feb	16.32	16.60	16.61 16.30
Mar	16.46	16.66	16.70 16.43
Apr	16.56	16.78	16.78 16.54
May	16.16	16.86	16.78 16.76
Jun	16.87	16.95	17.00 16.87
Jul	16.90	17.00	16.92 16.90
IPE Index	16.25	16.10	

Turnover 25217 (37906)

GAS OIL - IPE ($/tonne)	Close	Previous	High/Low
Nov	163.00	163.75	165.50 163.25
Dec	163.25	164.00	165.75 162.25
Jan	162.50	163.50	165.00 162.00
Feb	162.00	162.75	163.50 161.25
Mar	161.00	161.75	162.75 160.25
Apr	160.00	160.50	161.75 159.75
May	158.50	158.50	158.50
Jun	158.00	158.25	160.50 158.00

Turnover 16309 (15851) lots of 100 tonnes

SUGAR - LCE ($ per tonne) White	Close	Previous	High/Low
Dec	282.00	284.40	284.00 282.00
Mar	279.30	280.20	280.50 278.70
May	281.00	282.00	282.00 281.00
Aug	285.60	286.30	285.60 285.50
Oct	274.50	275.20	274.50

Turnover 793 (884) Paris- White (FFr per tonne): Dec 1678.70 Mar 1674.96

JUTE
September/October c and f Dundee BTC $405, BWC $425, BTD $365, BWD $385; c and f Antwerp BTC $385, BWC $385, BTD $355, BWD $355.

COTTON
Liverpool- Spot and shipment sales amounted to 91 tonnes for the week ended October 29, against 40 tonnes in the previous week. Improved demand brought moderate purchases mainly in Benin descriptions. Support was also forthcoming in Turkish growths.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 37,880 lots
Cash	1030-0.5	1023-4		1031-2		
3 months	1053-4	1046-6	1056/1038	1052.5-3	1051-2	249,654 lots
Copper, Grade A ($ per tonne)						Total daily turnover 43,431 lots
Cash	1622.5-3.5	1601.5-2.5	1611	1610.5-1		
3 months	1644.5-5	1624-5	1648/1627	1632.5-3	1642-3	193,979 lots
Lead ($ per tonne)						Total daily turnover 3,090 lots
Cash	396-7	384.5-5.5	396	395.5-6		
3 months	410-0.5	405.5-6	411/409	409.5-10.5	405-6	24,573 lots
Nickel ($ per tonne)						Total daily turnover 3,862 lots
Cash	4565-70	4600-10		4587-8		
3 months	4620-5	4660-5	4655/4585	4625-8	4610-5	43,799 lots
Tin ($ per tonne)						Total daily turnover 3,595 lots
Cash	4744-7	4695-700		4716-8		
3 months	4792-5	4740-50	4800/4730	4760-5	4770-80	13,327 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 18,174 lots
Cash	932.5-4.5	931-2	942	942-2.5		
3 months	950-2	948-9	964/950	959-9.5	949-50	83,809 lots

LME Closing £/$ rate: SPOT: 1.4835 3 months: 1.4753 6 months: 1.4678 9 months: 1.4625
LME AM Official £/$ spot rate 1.4805

LONDON BULLION MARKET (Prices supplied by N M Rothschild) Gold (troy oz)	$ price	£ equivalent
Close	360.80-361.20	
Opening	362.00-362.40	
Morning fix	362.30	244.717
Afternoon fix	363.00	245.469
Day's high	363.00-363.50	
Day's low	360.50-361.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.68	6 months	2.68
2 months	2.67	12 months	2.89
3 months	2.67		

Silver fix	p/troy oz	US cts equiv
Spot	284.75	421.15
3 months	288.65	424.50
6 months	292.30	428.05
12 months	299.65	435.65

GOLD COINS	$ price	£ equivalent
Krugerrand	364.00-367.00	242.00-245.00
Maple leaf	371.60-373.85	–
New Sovereign	84.00-87.00	56.00-59.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Dec	Mar	Dec	Mar
1025	28	56	10	16
1050	15	40	22	28
1075	7	28	38	39
Copper (Grade A)	Calls		Puts	
1600	47	84	12	29
1625	31	69	22	38
1650	20	55	35	49
Coffee LCE	Jan	Mar	Jan	Mar
1150	98	119	29	63
1200	68	93	49	87
1250	46	73	77	117
Cocoa LCE	Dec	Mar	Dec	Mar
900	36	68	16	33
925	24	73	27	43
950	15	60	43	55
Brent Crude	Dec	Jan	Dec	Jan
1650	9	40	65	-
1700	4	21	-	-
1750	-	13	-	-

New York

GOLD 100 troy oz.; $/troy oz.	Close	Previous	High/Low	
Nov	362.7	381.2	0	0
Dec	363.6	382.1	364.7	361.0
Feb	364.8	383.3	365.8	363.5
Apr	366.4	385.0	366.5	365.0
Jun	367.1	386.6	367.5	366.0
Aug	368.9	387.9	368.5	368.7
Oct	370.7	389.2	0	0
Dec	372.5	371.0	0	0
Feb	374.5	372.9	375.0	372.3

PLATINUM 50 troy oz; $/troy oz.	Close	Previous	High/Low	
Nov	363.0	363.0	0	0
Jan	366.6	367.8	371.0	366.0
Apr	371.4	368.8	372.0	369.0
Jul	372.4	370.5	0	0
Oct	373.9	372.0	0	0

SILVER 5,000 troy oz; cents/troy oz.	Close	Previous	High/Low	
Nov	418.2	421.5	418.5	419.0
Dec	419.0	422.5	425.0	417.0
Jan	420.2	423.7	0	0
Mar	423.3	426.8	430.5	421.5
May	426.3	429.8	432.5	425.0
Jul	429.3	432.8	435.0	428.0
Sep	432.2	435.6	0	0
Dec	436.9	440.1	442.0	436.0
Jan	438.0	441.2	0	0
Mar	441.8	445.0	442.0	442.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs	Close	Previous	High/Low	
Nov	73.60	72.70	73.65	73.60
Dec	73.85	72.90	74.10	73.25
Jan	74.10	73.15	74.20	73.50
Feb	74.35	73.40	74.40	73.80
Mar	74.55	73.65	74.90	74.10
Apr	74.80	73.90	75.00	74.75
May	75.05	74.15	75.50	74.75
Jun	75.25	74.35	75.50	75.50
Jul	75.50	74.60	75.75	75.50
Aug	75.75	74.85	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel	Latest	Previous	High/Low	
Dec	17.10	17.43	17.56	16.98
Jan	17.33	17.62	17.73	17.22
Feb	17.53	17.80	17.90	17.44
Mar	17.60	17.94	17.88	17.60
Apr	17.77	18.07	18.00	17.78
May	17.90	18.19	17.95	17.88
Jun	18.06	18.30	18.17	17.96
Jul	18.15	18.41	18.32	18.15
Aug	18.31	18.52	18.37	18.31
Sep	18.40	18.63	18.44	18.34

HEATING OIL 42,000 US galls, cents/US galls	Latest	Previous	High/Low	
Dec	52.35	53.12	53.65	52.15
Jan	53.05	53.74	54.10	52.80
Feb	53.10	53.79	53.85	52.85
Mar	52.60	53.24	53.00	52.50
Apr	51.80	52.44	52.40	51.80
May	51.05	51.64	51.20	50.80
Jun	50.80	51.24	50.85	50.70
Jul	51.10	51.44	51.10	50.90
Aug	51.30	51.89	0	0
Sep	52.85	52.24	52.65	52.65

COCOA 10 tonnes;$/tonnes	Close	Previous	High/Low	
Dec	1109	1112	1118	1099
Mar	1156	1156	1163	1145
May	1173	1173	1170	1162
Jul	1192	1192	1192	1181
Sep	1206	1206	1210	1198
Dec	1216	1215	1217	1205
Mar	1235	1235	1230	1228
May	1250	1250	0	0
Jul	1267	1267	0	0
Sep	1286	1286	0	0

COFFEE "C" 37,500lbs; cents/lbs	Close	Previous	High/Low	
Dec	78.85	77.55	78.95	77.70
Mar	81.45	80.15	81.90	80.40
May	82.95	81.60	83.00	81.85
Jul	84.30	82.60	84.00	84.00
Sep	84.70	84.40	85.50	85.00
Dec	87.20	86.00	87.50	87.45
Mar	88.35	86.85	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs	Close	Previous	High/Low	
Mar	10.44	10.46	10.51	10.37
May	10.61	10.62	10.64	10.56
Jul	10.66	10.66	10.66	10.62
Oct	10.65	10.66	10.66	10.62

COTTON 50,000; cents/lbs	Close	Previous	High/Low	
Dec	57.56	57.17	58.30	57.11
Mar	58.48	59.04	60.35	59.45
May	60.53	60.06	61.35	60.20
Jul	61.30	60.90	61.55	61.10
Oct	62.25	61.85	62.60	62.30
Dec	62.50	61.94	62.70	62.04
Mar	63.16	62.65	0	0

ORANGE JUICE 15,000 lbs; cents/lbs	Close	Previous	High/Low	
Nov	105.20	103.75	106.50	103.50
Jan	108.55	107.16	109.30	106.00
Mar	111.05	110.00	112.00	109.00
May	112.75	111.60	112.75	112.25
Jul	114.90	113.45	0	0
Sep	116.60	114.15	116.60	114.00
Nov	112.80	111.45	0	0
Jan	112.80	111.45	0	0
Mar	112.80	111.45	0	0

INDICES				
REUTERS (Base:September 18 1931 = 100)				
	Nov 2	Nov 1	mnth ago	yr ago
	1606.7	1610.3	1577.4	1659.4
DOW JONES (Base: Dec. 31 1974 = 100)				
	Nov 1	Oct 29	mnth ago	yr ago
Spot	119.37	120.09	117.02	114.40
Futures	130.78	131.62	125.34	116.46

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel	Close	Previous	High/Low	
Nov	627/6	618/4	630/4	620/6
Jan	637/0	628/4	640/0	629/4
Mar	643/0	636/6	645/0	636/4
May	648/6	636/6	649/0	640/4
Jul	649/2	642/2	652/4	644/2
Aug	640/2	644/0	650/6	644/4
Sep	635/6	631/4	639/0	634/0

SOYABEAN OIL 60,000 lbs; cents/lb	Close	Previous	High/Low	
Dec	23.84	23.27	23.52	23.32
Jan	23.42	23.35	23.56	23.40
Mar	23.60	23.49	23.72	23.59
May	23.66	23.56	23.82	23.65
Jul	23.70	23.58	23.83	23.65
Aug	23.62	23.50	23.70	23.60
Sep	23.40	23.25	23.52	23.40
Oct	23.07	23.05	0	0

SOYABEAN MEAL 100 tons; $/ton	Close	Previous	High/Low	
Dec	197.8	193.4	198.2	193.9
Jan	197.1	193.1	197.7	193.6
Mar	197.4	193.2	197.8	193.6
May	197.4	194.0	198.5	194.5
Jul	198.2	194.8	198.9	195.3
Aug	197.9	194.8	198.6	195.3
Sep	197.7	194.0	198.5	195.1
Oct	198.2	194.5	198.7	195.0

MAIZE 5,000 bu min; cents/56lb bushel	Close	Previous	High/Low	
Dec	263/6	259/0	263/0	256/4
Mar	269/4	264/6	270/4	264/4
May	272/4	270/0	273/4	270/6
Jul	273/0	272/4	274/2	272/0
Sep	263/2	261/4	263/4	261/6

WHEAT 5,000 bu min; cents/60lb-bushel	Close	Previous	High/Low	
Dec	332/2	333/4	335/0	330/4
Mar	330/4	330/6	335/0	329/6
May	320/4	318/2	321/0	317/6
Jul	313/2	310/4	313/6	310/2
Sep	317/2	314/4	317/2	314/4

LIVE CATTLE 40,000 lbs; cents/lbs	Close	Previous	High/Low	
Dec	73.450	73.875	74.075	73.300
Feb	74.500	74.800	74.900	74.250
Apr	76.050	76.250	76.375	75.925
Jun	72.875	72.975	73.150	72.750
Aug	71.475	71.675	71.900	71.450
Oct	71.925	72.050	72.100	71.900

LIVE HOGS 40,000 lb; cents/lbs	Close	Previous	High/Low	
Dec	48.725	49.225	49.350	48.600
Feb	49.875	50.075	50.150	49.625
Apr	47.950	48.325	48.425	47.800
Jun	52.125	52.300	52.275	51.850
Jul	51.200	51.450	51.450	51.050
Aug	49.675	50.000	0	49.600
Oct	45.550	45.900	0	45.400

PORK BELLIES 40,000 lbs; cents/lb	Close	Previous	High/Low	
Feb	60.075	60.550	60.750	59.600
Mar	59.825	60.300	60.200	59.300
May	60.125	60.750	60.450	59.700
Jul	60.600	61.475	61.200	60.050
Aug	59.050	59.350	0	59.300

LONDON STOCK EXCHANGE

Weak close after an erratic session

By Terry Byland, UK Stock Market Editor

WEAKNESS in the New York bond market, quickly reflected on Wall Street, undermined equities in London yesterday and wiped out an early round of share price gains. But City confidence rallied after the official close of the market when the Bank of England Quarterly Bulletin took a more positive view of domestic inflation prospects than had been feared.

It was an erratic session, with the FT-SE 100 Index gaining nearly 12 points initially after reports that Mr Kenneth Clarke, the UK chancellor of the exchequer, was winning the political battle inside the Cabinet for cuts in public spending; this would reduce the pressures for increased taxation in this month's Budget, according to City pundits.

However, the early morning Footsie reading of 3,176.2 proved to be the day's best, although a further advance was mounted later on the back of a sizeable trading programme which ranged across the market.

All came to naught when the Dow, having closed at a new peak on Monday, opened 20 points down, and the London market retreated into negative territory.

After allowing for a mild rally in the final minutes, the FT-SE 100 finished just a net 0.3 points off at 3,164.1. The FT-SE Mid 250 Index, covering a broad range of second line stocks, gained 1.8 at 3,522.3, benefiting from the effects of the trading programme from a leading UK securities house.

Publication of the Bank's Quarterly Bulletin came too late for equities, but stock index futures turned higher in very late deals as traders considered that the Bank's views on inflation provide underpinning for a base rate cut before the end of the year.

Although UK market strategists agreed that it was the New York bond market that unshipped London, several believed that the logic might prove short-lived. US bonds have been leading equities ahead in New York and Europe since August. But yesterday's data confirming growing recovery in the US economy checked the US credit markets and raised fears for global equities – fears immediately reflected in the Dow's fall.

However, economic recovery in the US is seen by many analysts as more significant, as well as more positive, for global stock markets than any fears over any revival of inflationary pressure in the US .

By the close, market traders sounded more positive than the readings on market indices might have suggested. The Footsie has bounced successfully from the 3,150 area once again and trading volume continues to indicate underlying confidence.

Retail business in equities was worth £1.09bn on Monday and Seaq volume jumped by nearly 43 per cent to 664.4m shares yesterday.

On the domestic front, the 0.4 per cent gain in October M0 money supply was in line with market expectations. Attention continued to focus on the prospects for the UK Budget due at the end of the month, with suggestions of changes in pension fund taxation dominating lunchtime conversations in the City of London.

Banking stocks again attracted strong support, and hints that a large international deal was pending in the telecommunications industry kept institutional dealers on the alert throughout the trading session.

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:	Oct 18	Nov 1	Nov 15
Option Declarations:	Oct 28	Nov 11	Nov 25
Last Dealings:	Oct 29	Nov 12	Nov 26
Account Day:	Nov 8	Nov 22	Dec 6

*New time dealings may take place from two business days earlier.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3164.1 -0.3	3522.3 +1.8	1562.30 +0.14

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3174.9	3167.8	3168.7	3168.1	3171.3	3172.7	3173.5	3168.0	3163.2	3176.2	3158.6
FT-SE Mid 250	3524.5	3522.6	3519.4	3520.1	3521.8	3522.7	3523.1	3522.5	3521.8	3525.0	3518.2
FT-SE-A 350	1582.0	1579.0	1579.3	1578.2	1580.4	1581.0	1581.3	1579.5	1577.2	1582.6	1578.2

Time of FT-SE 100 high: 8.37am low: 3.46pm

FT-SE Actuaries 350 Industry Baskets

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The FT-SE 100, FT-SE Mid 250 and the FT-SE Actuaries 350 Indices are compiled by the London Stock Exchange and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1993. © The Financial Times Limited 1993. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company.

Hong Kong hint hits C&W

RUMOUR that CITIC, the Chinese government's investment agency, is planning a major placing of HK Telecom shares, perhaps as much as a 5 per cent stake in the equity, after it announces its results tomorrow, badly upset the share price of Cable and Wireless, parent company of the Hong Kong group. C&W retains a near 58 per cent holding in HK Telecom and dealers took the view that any sale of CITIC's stock would trigger a slide in Telecom's share price.

C&W shares slipped at the outset of trading, reflecting the late sudden downward movement of the Hong Kong market, which closed only marginally higher after being substantially firmer at first. After reaching a peak 509p on Monday, the shares opened easier yesterday at 502p, and moved lower to close a net 11¼ off at 491p after another session of well above average turnover of 10m.

CITIC acquired its near 17 per cent HK Telecom stake in December 1989, for an average HK$4.50 a share and, according to UK dealers, could seek to lock in substantial profits now that the shares stand above HK$17 apiece. "The Chinese would be looking at a massive profit of over £1bn from their holding," said one specialist.

He mentioned "a massive US appetite for far eastern and particularly Hong Kong stocks in recent months". Because of its 17 per cent stake in HK Telecom, CITIC would be prevented from selling any of its HK Telecom shares in London because of the "closed period" rules.

Forte hit

Forte was hit as talk was heard in the market that CIGA, the loss-making Italian hotelier currently being courted by the UK group, had been made a more attractive offer by Hyatt Hotels, of the US. Forte shares came off 7 at one stage, but rallied towards the close to end 3 adrift at 216p. Turnover was an average 2m.

Forte struck a management deal with CIGA last month, paying £33m cash and inserting some of its own luxury hotels with a value of about £125m into an Italian operating company. However, the two groups were undergoing due diligence, and leisure analysts have been told that the deal is some months away from being finalised.

Waters strong again

Water stocks made further rapid progress, building on Monday's solid gains ahead of the important document from the industry watchdog outlining its broad methodology for setting new pricing levels for 1995 to 2000. Worries about the content of the Ofwat document, which is expected to be published in full in July next year, have cast a shadow over the sector in recent weeks.

But the market adopted a more relaxed view of the contents of the document yesterday, with a number of the leading brokers of the opinion that most of the bearish factors have already been factored into share prices.

S.G. Warburg's utilities team took the lead in the market yesterday, advising their clients to "exploit any further weakness by increasing holdings". Warburg said: "We expect nothing of fundamental alarm on Thursday to jeopardise our view that an attractive real rate of dividend growth can be sustained through to 2000; at a 130 sector yield relative, any downside on toughening regulation is discounted." Warburg has projected "at least 3 per cent real dividend growth from 1996".

Warburg continued to recommend its "core holdings" in the sector: Severn Trent, up 12 at 560p, Thames, 4 firmer at 554p, and Southern, 10 stronger at 589p.

Thorn in the frame

The share price of Thorn EMI rocketed for a second session, although both leisure and telecoms specialists continued to be sceptical on press speculation of a possible bid by BT. Many preferred to believe the story from across the Atlantic that a US telecoms group was eyeing Thorn, speculation fuelled by US buying of the group's shares yesterday afternoon.

They closed 23 ahead at 987p in turnover of 1.9m. Meanwhile, BT watchers were not discounting an aquisitive move in the near future, with one senior trader predicting that the move would come when BT took receipt of the $2bn-odd for its stake in McCaw Cellular Communications, due shortly. BT fully-paid shares advanced 4 to 469½p, the partly paid 6½ to 220p.

The property sector saw a burst of activity as a number of features excited interest. Firstly, MEPC announced it was extending its US retail activities with the purchase of American Property Trust, a property unit trust whose principal assets are two shopping malls in the US, for £115m. Analysts welcomed the deal, particularly in the extra exposure to the US retail market and at an attractive price. NatWest Securities raised its net asset value forecast for the group to 440p on the back of the deal. MEPC shares jumped on the news but faded to close a penny down at 532p.

British Land extended its debt profile through a £150m bond issue. The shares advanced 3 to 409p. The company, which is known to be on the aquisition trail, was one company being mentioned in connection with Stanhope yesterday as speculation increased over the shape of its future financing. Stanhope had confirmed weekend press reports that it is considering a restructuring and although there were few more details emerging in the market yesterday – other than the attention of an overseas investment group – there was talk of some burgeoning dissent among shareholders. Under preliminary plans, existing shareholders could see their holding diluted to 20 per cent. Stanhope shares steadied at 36p.

Barclays Bank was the outstanding performer in the financials area of the market with a buyer of 750,000 shares mainly responsible for driving the stock up 13 to 582p. Dealers said news of the US Supreme Court's decision to review California's unitary tax system, which they said mitigates against Barclays in the US, had triggered the upsurge.

Legal & General edged up 2 to 518p, after 521p, on exceptionally heavy turnover of 7.1m with interest stimulated by an agency cross of 1.8m shares at 528p.

Milk products group Northern Foods gained 4 to 232p amid talk of the unwanted attentions of a European competitor. BSN, the French food group and a frequently named suitor on the UK food scene, was one name being touted by dealers. Strauss Turnbull was also said to be recommending the stock. Northern is currently subject to a strong two-way pull in the market between those cautious ahead of the restructuring of the UK milk industry and those who consider some good opportunities opening up as a result.

Leading oil shares came under pressure, unsettled by a steep decline in crude oil prices. BP was unaltered on balance at 352½p, although Shell [illegible] funds and moved up 6½ to 718p on 4.2m traded.

Pittencrief advanced 37 more to 473p, as US investors focused on the US telecoms interests.

Wimpey reportedly suffered a downgrading and fell back 6 to 167p.

NatWest Securities upgraded its forecast for Ladbroke Group, the broker taking into account the betting and hotel group's share of a £55m dividend payment from SIS, the satellite service owned by the UK's leading bookmakers. NatWest is now looking for £153m for this year, an increase of £10m. The shares steadied at 172p in good turnover of nearly 4m.

In the face of high-profile sell notes, ICI nevertheless proved a tough customer and mustered a rally, adding 8 to 725p in reasonable volume of 3.5m. US interest was largely credited for the rise.

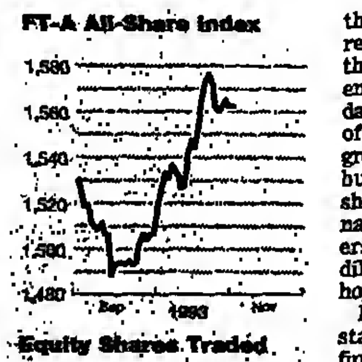
Wellcome began to fight back, pushing up 15 to 690p. Sentiment was boosted by a company presentation at Warburg, its broker.

Fisons lost ground of 3 to 156p as UBS reduced its forecasts, trimming current year expectations by £10m to £100m.

MARKET REPORTERS: Steve Thompson, Christopher Price, Christine Buckley.

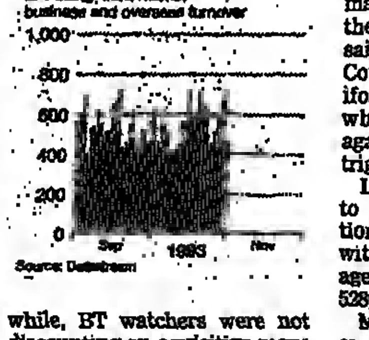
■ Other statistics, Page 22

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Source: Datastream

NEW HIGHS AND LOWS FOR 1993

FINANCIAL TIMES EQUITY INDICES

London report and latest Share Index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

LONDON SHARE SERVICE

BRITISH FUNDS

OTHER FIXED INTEREST

Continued on next page

EQUITY FUTURES AND OPTIONS TRADING

TRADING in Footsie futures yesterday moved on a roller-coaster yesterday, with several influences pulling on the December contract, writes Christine Buckley.

US selling once again stalked the contract in the morning and it slipped to a day's low of 3,166 early in the session. There was not much of a fight to rescue December, with sellers outweighing buyers.

Later on some optimism fed across from a bouncy German market and the contract moved up to trade in more positive territory. For a while it hovered mainly in a small range between 3,185 and 3,187.

But the US sellers would not be deterred and returned to push the contract down. It struggled to muster a rally before the official close when it registered 3,174 – on a par with its fair value premium to the cash market which stands at about 8 points.

Volume was improved on recent sessions at 10,602 contracts.

In after-hours trading the market was enlivened by the Bank of England's quarterly bulletin which contained upbeat signals for inflation. The contract advanced to 3,174 and looked poised to bounce in today's trading.

Traded options were steady at 29,904 lots. The bulk of the interest was in index options with the FT-SE 100 option trading 9,416 lots and the Euro FT-SE 100 option showing good interest at 6,747.

CROSSWORD

No.8,296 Set by ADAMANT

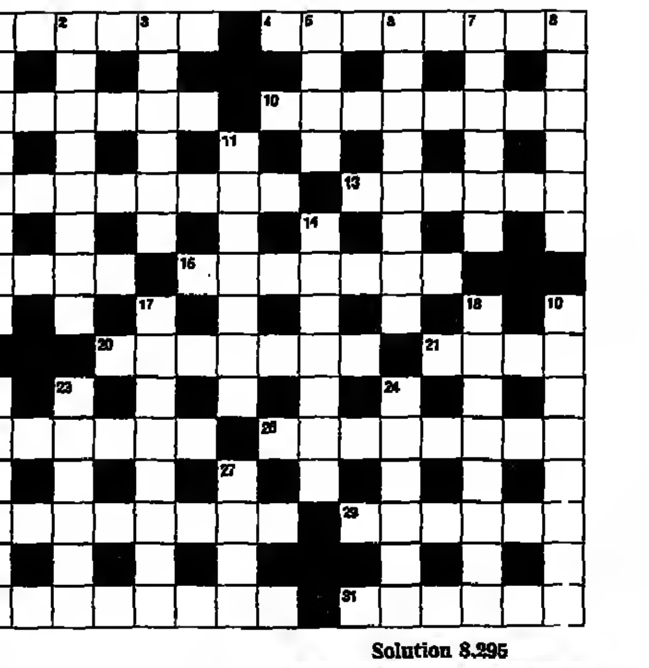
D has the same meaning wherever it appears in the clues

ACROSS

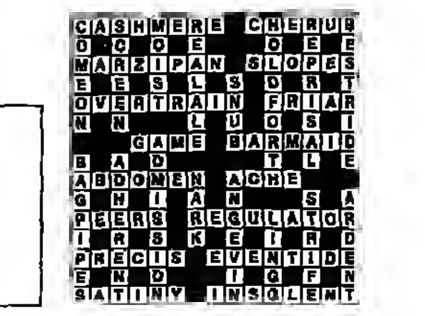
1 Plan to move in less than a second (6)
4 Discovers ore - lots of money for D (8)
9 Admit being friend to a D (6)
10 D providing transport at present time (8)
12 Cold solid edition and the journalist is put on a pedestal (8)
13 Give due praise to student during term of cookery (6)
15 Holbein's first painting of a D (4)
16 D's boracic compound replaced carbon with uranium (7)
20 D, with misplaced zeal, broke leg casing (7)
21 Make up to D's colour (4)
25 D found wandering in Gaul (6)
26 Like all D's after university, let a gun off (8)
28 Having overturned one vehicle, go round America - that's elegant! (8)
29 Village women surrounded a hollow D (6)
30 Soldier, perhaps, to run off with D (8)
31 Sound vendor of wine (6)

DOWN

1 Left out of the will, kept in penny pinching obscurity (8)
2 Where to store the trophy table (8)
3 Ring Ulster up and get it put in (8)
5 Superfluous deliveries (4)
6 Put a stop to a base for the house (8)
7 Caught the queen in the centre, the angel! (6)
8 The way of the crossword setter? (6)
11 Argued for action about the club (7)
14 Distasteful books describing the globe with excessive force (7)
17 Crystal-like perhaps, using the roof of the mouth to hold one (8)
18 Feverish alarm about student's first class rise (8)
19 Bury the French king over on the inside (8)
22 Mystery solved in game (6)
23 One caught in police trap can be so easily influenced (6)
24 Dawn chorus – get out of a bed of gold, for a start (6)
27 Turn the stopper and swallow (4)



Solution 8,295



JOTTER PAD

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs	19¼xd	+⅛	20⅞	15⅝	16,119	6.4
Allegheny & W ♥	523p	-18	722p	390p	299.6	3.8
Amdahl	517p	+5	891p	294p	368.0	1.1
Amer Cyanamid	37	+¼	39	31¼	3,324	3.2
Amer Express	21⅛xd	-⅞	25⅞	14⅞	10,206	3.1
Amer T & T	39⅝xd	+⅛	43¼	33⅛	52,724	2.2
Ameritech	57¼	+⅛	59⅝	46	25,066	4.3
Anheuser-Busch	31⅞	-⅛	41⅛	29⅞	8,638	3.0
BankAmerica	29⅞xd	+⅞	35⅛	27⅛	10,110	3.3
Bankers NY	53⅝xd	+½	54⅝	42⅝	4,447	3.9
Bell Atlantic	42⅞	—	44⅝	32¼	18,638	4.2
BellSouth	42⅞	+⅛	42⅞	32⅞	21,068	4.4
Bethlehem Steel ♥	11⅛xd	—	13¼	8½	1,012	-
Bowater	1308pxd	-17	1682p	1169p	474.0	3.1
CPC	32⅞xd	+⅛	34⅞	28	4,909	2.8
California Engy	1163p	—	1479p	1066p	415.4	-
Chase Manhattan	22¼xd	+½	24⅞	17⅞	3,851	3.5
Chrysler	38¾xd	+1¼	38¾	21¼	11,347	1.0
Citicorp	24⅞xd	+½	26	13⅞	9,089	-
Colgate-Palm	39¾xd	+⅛	45⅞	38	6,348	2.4
Cont'l Bank	1747p	+35	1677p	1278p	1,785	2.3
Dana	38⅞xd	+⅛	38⅞	28⅞	1,819	2.7
Data General	643p	—	983p	527p	175.9	-
Decora Inds ♥	98p	—	146p	98p	-	-
Dun & Brad	45⅛	—	45⅛	37⅛	8,046	3.6
Eaton	36	+¼	60	25⅞	2,584	2.2
Echlin	22⅞xd	+⅞	22⅞	15⅞	1,308	2.1
FPL	25⅞xd	+¼	27⅞	23¼	4,871	6.2
Ford Motor	42⅞xd	+⅞	42⅞	28⅞	20,818	2.5
Gen Elect	65¼xd	+⅞	67⅞	53⅞	56,163	2.6
General Host ♥	509p	+25	723p	456p	-	4.5
[illegible]						

CANADIANS
[illegible]

BANKS
[illegible]

BREWERS & DISTILLERS
[illegible]

BUILDING MATERIALS
[illegible]

BUSINESS SERVICES
[illegible]

CHEMICALS
[illegible]

CONGLOMERATES
[illegible]

CONTRACTING & CONSTRUCTION
[illegible]

ELECTRICALS
[illegible]

ELECTRICALS - Cont.
[illegible]

ELECTRICITY
[illegible]

ELECTRONICS
[illegible]

ENGINEERING-AEROSPACE
[illegible]

ENGINEERING-GENERAL
[illegible]

ENGINEERING-GENERAL - Cont.
[illegible]

FOOD MANUFACTURING
[illegible]

FOOD RETAILING
[illegible]

HEALTH & HOUSEHOLD
[illegible]

HOTELS & LEISURE
[illegible]

HOTELS & LEISURE - Cont.
[illegible]

INSURANCE BROKERS
[illegible]

INSURANCE COMPOSITE
[illegible]

INSURANCE LIFE
[illegible]

INVESTMENT TRUSTS
[illegible]

INVESTMENT TRUSTS - Cont.
[illegible]

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

STORES

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ※ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ✝ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
Y Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

State Street Unit Trust Mngmt Ltd (1400)F

Stewart Ivory Unit Tst Mgrs Ltd (1200)F

Sun Alliance Unit Tst Mngmt Ltd (1200)F

Sun Life of Canada Unit Mgrs Ltd (1000)F

Sun Life Trust Mngmt Ltd (1200)H

T.U. Fund Managers Limited (1200)H

Thornton Unit Managers Ltd (1200)F

Waverley Unit Tst Mngt Ltd (1000)F

Woolwich Unit Trust Managers Ltd (1700)H

Jupiter Merlin Unit Trust Managers Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd

M & G Securities Ltd

Morgan Grenfell Investment Funds Ltd

Morgan Stanley International

National Investment Management Ltd

Rothschild Asset Management

Thornton Unit Managers Ltd

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

CAF - Charity Money Management

James Capel Fund Managers Ltd

Charities Official Inv Fd

Fidelity Investment Services Ltd

Robert Fleming Asset Mngt Ltd

Foreign & Colonial Unit Management Ltd

Govett (John) Unit Mngmt Ltd

Henderson Unit Trust Management Ltd

INVESCO Asset Management Ltd

INSURANCES

AXA Equity & Law Life Assce

Abbey Life Assurance Co Ltd

Aetna Life Assurance Co Ltd

AEGON Life Assurance Co (UK) Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Allied Dunbar Assurance Plc - Contd.

American Life Insurance Co UK

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Assurance

Britannia Life Ltd

Canada Life Group

Cannon Assurance Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance (z)

Clerical Medical/Fidelity Investments

Clerical Medical Investment Group

Colonial Mutual Group

Commercial Union Group

Consolidated Life Assurance Co Ltd

Crown Financial Management Ltd

Eagle Star Life Assurance Co Ltd

Equitable Life Assurance Society

Family Assurance Friendly Society Ltd

Friends Provident

FS Assurance Ltd

General Accident

General Portfolio Life Ins Plc

GRE Assurance

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Benefit Society

Hill Samuel Life Assurance Ltd

Homeowners Friendly Society

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lincoln Assurance Ltd

London Life

London & Manchester Assurance Co

M & G Life and M & G Pensions

Manulife Group

MGM Assurance (z)

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

National Mutual Life

National Westminster Life Assce Ltd

NM Life Assurance Ltd

N & P Life Assurance Ltd

NPI

Norwich Union Insurance Group

Norwich Union Life Insurance Soc. - Contd.

Norwich Union Pensions Management Ltd

Pearl Assurance (Unit Funds) Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Growth Assurance

Provident Life Assoc. Ltd

Providence Capitol Life Assur. Co Ltd

Provident Mutual Life Assoc. Assoc.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH 071-405 9222				
Prufund				
Managed Oct 27	328.4	342.1	—	-
Prudential Corporate Pension Funds				
55 King's Road, Reading RG1 3AH 0734 494852				
Prudential Managed Funds				
Discretionary Oct 27	£254.85	264.97	+1.81	-
Equity Oct 27	£238.53	298.88	+2.79	-
International Oct 27	£43.94	44.88	-0.07	-
Intl Bond Oct 27	£21.86	22.13	+0.09	-
Fixed Int Oct 27	£135.20	138.73	+0.60	-
Index Linked Oct 27	£98.42	98.63	+0.52	-
Property Oct 27	£117.80	123.99	+1.10	-
Cash Oct 27	£34.17	34.17	-0.04	-
Pru-Linked Retirement Plan				
Managed Oct 6	605.40	633.80	+7.70	-
Cash Oct 6	309.90	321.80	+0.30	-
Prudential Pensions Investment Account				
Pens Mngd	242.60	201.00	+1.10	-
Pens Mngd A	108.60	114.40	+0.40	-
Pens UK Eq	409.00	441.70	+2.80	-
Pens Intl	314.30	335.80	+0.30	-
Pens Global Eqy	138.40	145.70	+0.70	-
Pens Fixed	301.80	317.20	+0.10	-
Pens Index Lk	247.40	261.10	-0.30	-
Pens Property	92.30	97.70	—	-
Pens Cash	201.60	212.40	-0.05	-
Money Purchase Plan				
Discretionary (z)	138.80	148.80	-0.40	-
Equity (z)	142.50	153.40	-0.30	-
International (z)	142.90	152.40	+0.90	-
Global Equity (z)	142.00	152.30	+0.50	-
Intl Bond (z)	152.40	160.30	-0.30	-
Fixed Interest (z)	150.80	158.70	-0.30	-
Index Linked (z)	135.80	142.90	-0.10	-
Property (z)	106.10	116.80	—	-
Cash (z)	116.80	122.80	+0.10	-
Prudential Individual Life Funds				
60 King's Road, Reading, RG1 3AH 0734 494852				
Series 1 Life Funds				
Managed	775.2	816.1	+2.6	-
Equity	1489.6	1568.0	+0.5	-
Fixed Interest	606.5	638.5	-0.2	-
Property	403.4	424.7	—	-
Cash	369.4	388.9	+0.1	-
International	622.9	655.7	+2.8	-
Series 0 Life Funds				
Managed	745.2	784.5	+2.4	-
Equity	1428.2	1503.4	+3.8	-
International	598.9	630.5	+2.7	-
Fixed Int	579.4	609.9	+0.5	-
Property	385.6	405.0	+0.1	-
Cash	353.4	372.1	+0.1	-
Pacific Basin	359.2	378.7	+2.4	-

	Bid Price	Offer Price	+ or -	Yield Gross
Scottish Amicable - Contd.				
Others				
Capital Guarantee Bond	108.2	113.9	+0.30	-
Scottish Equitable Life Assce. Soc.				
28 St Andrew Sq, Edinburgh 031-556 9101				
Mixed	247.5	260.6	+0.2	-
UK Equity	235.2	247.6	+0.5	-
International	251.5	264.8	-0.9	-
American	255.8	269.1	+0.3	-
European	234.6	246.9	+0.4	-
Japan	241.1	253.7	-1.8	-
Pacific	364.8	384.0	+0.1	-
Technology	331.7	349.2	+2.3	-
Fixed Interest	180.8	190.3	-0.4	-
Indexed Linked	165.1	173.8	+0.5	-
Foreign Bond/Currency	231.1	243.3	—	-
Cash	175.210	184.432	+0.021	-
Ethical	127.4	133.1	+0.1	-
Pens Mixed	720.9	759.0	+3.2	-
Pens UK Equity	806.7	849.4	+1.8	-
Pens International	783.8	825.0	+1.4	-
Pens Nth American	356.1	369.6	+0.5	-
Pens European	277.1	291.7	+0.2	-
Pens Japan	289.3	304.0	+0.5	-
Pens Pacific	480.1	505.3	+4.7	-
Pens UK Fixed Interest	377.8	397.7	-1.1	-
Pens Index Linked	205.0	215.8	+0.1	-
Pens Cash	279.800	294.526	+0.032	-
Pens Property	217.03	228.45	—	-
Pens Ethical	163.8	172.5	+0.1	-
Edinburgh Inv	382.4	402.6	+0.5	0
Baillie Gifford Japan	239.0	252.5	-1.2	-
Pens Global	93.7	186.1	+0.5	-
Pens Emerg Mkts	113.0	118.8	+1.5	-
Pens Overseas Bond	96.1	101.2	+0.1	-
Pens UK Smaller Cos	95.0	100.0	—	-
Scottish Life Investments				
10 St Andrew Square, Edinburgh 031-225 2211				
Property	187.0	197.0	—	-
UK Equity	345.4	363.7	+1.2	-
American	253.4	266.8	+0.4	-
Pacific	369.1	388.6	+2.1	-
European	459.5	483.8	+2.8	-
International	312.6	329.0	+1.2	-
Fixed Interest	247.0	260.1	+1.1	-
Index Linked	203.0	213.8	+0.5	-
Deposit	187.8	197.8	—	-
Managed	280.0	295.5	+1.0	-
Worldwide	127.0	133.7	+0.7	-
With Profits Pens	0F.2	01.9	—	-
Pens. Property	220.6	232.4	+0.1	-
Pens. UK Equity	413.5	435.3	-0.9	-
Pens. American	284.5	299.5	—	-
Pens. Pacific	425.0	447.5	+2.4	-
Pens. European	561.8	591.1	+3.5	-

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs

John Govett (Channel Islands) Ltd (1000)F

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

Prudential Fund Managers (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd (1400)F

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Bank Von Ernst & Cie AG - Contd.

Banque Scandinave a Luxembourg SA

Barclays Diversified Portfolio

INVESCO International Limited - Contd.

Jupiter Tyndall Global Fund

Kleinwort Benson Japan

LUXEMBOURG (REGULATED)(**)

Alliance Capital

NM Income & Gwth Fd

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

Butterfield Management Co Ltd

Group One International Tst

Pacific Growth Fund

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE

Dollar gains at DM's expense

ENCOURAGING economic data from the US gave a lift to the dollar which recorded significant gains against the D-Mark yesterday. The German currency was also weak against several European currencies, particularly sterling which consolidated above DM2.50, *writes Peter John*.

The dollar tried to push higher in Tokyo trading but ended steady against the yen and D-Mark on late profit taking, apparently by Japanese life insurers.

Then at the start of European dealing, the German Bundesbank announced that today's securities repurchase operations would be carried out at a variable rate. This gave hope that the repo would fall from its current 6.40 per cent to around 6.35 per cent.

The belief that Germany will continue to cut rates was given additional impetus by figures showing that German industrial output was still very weak.

Switching from the D-Mark to the dollar pushed the US currency above DM1.70. It slipped at midday but when the US markets opened figures were released showing a surge in home sales and it moved higher again.

Ms Francoise Skelley of Credit Suisse said charts of recent buying trends showed that the dollar was now well supported at DM1.6850 and DM1.6920 while DM1.70 and DM1.7250 were resistance levels on the way up.

The dollar closed at DM1.6945, up from DM1.6935. Against the pound it eased to $1.4825 from $1.4810 and against the yen it slipped to Y107.50 from Y108.20 previously.

Meanwhile, a weaker D-Mark was most strikingly reflected by the relative strength of the pound. Sterling continued to build on its rise at the start of the week as the argument against an early cut in interest rates developed.

Previous statements by Mr Eddie George, the governor of the Bank of England, and Mr Kenneth Clarke, the chancellor, sought to dampen speculation that the base rate is set to fall. Yesterday's Bank of England inflation report did little to support the case for a near-term reduction in the base rate.

Sterling reached a high of DM2.5157 in the afternoon before settling at DM2.5125, up from DM 2.5075 previously. Foreign exchange dealers now consider it can quite easily rise as high as DM2.54 before there is any strong desire to switch funds.

The D-Mark also slipped against the Danish krone, falling below DKr4.0 to close at DKr3.9990 from DKr4.0209. It slid against the Italian lira to L967.40 from L975.30 with technical analysts saying that it could reach L960 soon.

The German currency was easier against the French franc as Mr Edmond Alphandéry, the French finance minister, reaffirmed France's policy to maintain a strong currency. In contrast it gained against the Swiss franc to close at SFr1.299, up from SFr1.287.

£ IN NEW YORK

Nov 2	Latest	Previous Close
£ Spot	1.4805-1.4815	1.4815-1.4825
1 month	0.36-0.35pm	0.34-0.33pm
3 months	1.49-1.46pm	0.84-0.82pm
12 months	2.50-2.43pm	2.57-2.52pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Nov 2	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.15242	-2.02	5.32	-
D-Mark	1.94964	1.91723	-1.66	4.94	-
Spanish Peseta	154.250	153.412	-0.54	2.76	4
Irish Punt	0.808628	0.808703	0.01	3.19	0
Portuguese Escudo	192.854	197.346	2.33	0.85	-18
French Franc	6.53883	6.69383	2.37	0.81	-30
Belgian Franc	40.2123	41.3367	2.80	0.39	-20
Danish Krone	7.43679	7.67456	3.20	0.00	-22

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. ‡Indicative values only. Divergence indicators are based on 15% band limitations but do not show the 2.25% band between the Dutch Guilder and D-Mark.

POUND SPOT - FORWARD AGAINST THE POUND

STERLING INDEX

CURRENCY RATES

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

CURRENCY MOVEMENTS

EURO-CURRENCY INTEREST RATES

OTHER CURRENCIES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

PARIS

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4825	1.4789	1.4742	1.4676	1.4575

BASE LENDING RATES

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Bank dealings smooth

INTERBANK operations in the UK proceeded very smoothly with the liquidity shortage largely taken out at the earliest opportunity, *writes Peter John*.

This was in contrast to Monday when most of the shortage remained outstanding until the end of the day. And the ease of yesterday's dealing prompted suggestions that the Bank of England might have exerted its influence by persuading some of the clearing banks to part with bills.

UK clearing bank base lending rate 6 per cent from January 26, 1993

The Bank of England offered the money market an early round of assistance after forecasting a liquidity shortage of around £1.9bn, which was later revised up to £2.1bn.

Among factors affecting the position were the take-up of Treasury Bills and paper maturing in official hands which drained £1.35bn from the system, bills for repurchase by the market which took out £743m and Exchequer transactions which removed £55m. Offsetting these, a fall in note circulation added £115m and bankers' balances above target added £150m.

The Bank of England provided £1.65bn of early assistance, buying bills for resale to the market on November 22 at 5⅞ per cent, and gave an additional £125m in the morning. This was followed by a further £198m of assistance in the afternoon, bringing total help for the day to £1.973m

Short sterling took no cue from money supply figures which added to evidence that consumer spending is driving economic recovery in the UK. The rise in M0 – cash in circulation – to a seasonally adjusted 5.4 per cent in the year to October was very much as expected and most dealers were waiting for the Bank of England's quarterly bulletin later in day.

The futures contract for December traded within a tight range ending two basis points higher at 94.44 at the official close but falling back later.

Euromark futures were firmer as an announcement that the Bundesbank's repo today would be at a variable rate gave hope that it would fall slightly from its current 6.40 per cent. That hope was further encouraged by German industrial output data which showed that the economy was still very weak. The Euromark contract for December hit a high of 93.87 and closed two basis points firmer at 93.82.

The French short-term interest rate contract settled two basis points lower at 93.60.

FT LONDON INTERBANK FIXING

MONEY RATES

NEW YORK

LONDON MONEY RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close November 2

Quotations in cents unless marked $

MONTREAL

4 pm close November 2

Total Sales 64,276,266 shares

INDICES

NEW YORK DOW JONES

	Nov 1	Oct 29	Oct 28	Oct 27	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Home Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transport	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Utilities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STANDARD AND POOR'S

	Nov 1	Oct 29	Oct 28	Oct 27	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Industrials	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Financial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NYSE Composite	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amex Mkt. Value	482.57	481.44	477.35	475.06	483.23 (15/10)	395.84 (8/1)	483.23 (15/10/93)	29.31 (9/12/72)
NASDAQ Composite	783.77	779.26	773.49	771.88	787.42 (15/10)	645.87 (26/4)	787.42 (15/10/93)	54.87 (31/10/72)

	Oct 28	Oct 22	Oct 15	year ago (approx.)
Dow Industrial Div. Yield	2.72	2.79	2.81	3.21

	Oct 27	Oct 20	Oct 13	year ago (approx.)
S & P Industrial div. yield	2.42	2.20	2.47	2.68
S & P Ind. P/E ratio	26.51	28.48	28.00	27.52

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
RJR Nabisco	5,708,800	5⅞	+ ⅛
Zapata	4,340,800	1⅞	----
IBM	3,857,900	47¼	+ 1¾
Grt West Fin	3,590,900	19	+ ⅛
Mylan Labs	2,830,300	31¾	+ 2¼
Philip Morris	2,636,800	54¼	+ ½
Merck	2,533,600	32	- ⅛
Ford Motor	2,141,300	62¾	+ ⅞
Walt Disney	2,036,400	43⅝	+ ⅜
Telefonos	1,925,300	55¾	+ ⅝

TRADING ACTIVITY

† Volume (Millions)	Nov 1	Oct 29	Oct 28
New York SE	253.847	266.568	297.140
Amex	19.284	20.289	20.417
NASDAQ	(a)	268.568	312.140
NYSE			
Issues Traded	2,654	2,659	2,657
Rises	1,076	1,195	1,149
Falls	960	808	860
Unchanged	618	656	648
New Highs	123	87	86
New Lows	19	21	10

CANADA

TORONTO	Nov 1	Oct 29	Oct 28	Oct 27	1993 HIGH	1993 LOW
Metals & Minerals	3077.42	3080.71	3070.71	3015.04	3140.84 (16/8)	2743.31 (21/1)
Composite	4248.02	4255.80	4235.20	4197.48	4255.80 (29/10)	3275.80 (21/1)
MONTREAL Portfolio	2027.21	2034.23	2020.88	1995.68	2027.21 (1/11)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	Nov 2	Nov 1	Oct 29	Oct 28	1993 HIGH	1993 LOW
WORLD M.S. Capital Intl.(1/1/70) $	604.8*	604.0	605.8	[illegible]	[illegible]	[illegible]
Euro Top-100 (26/6/90)	1170.57	1170.98	1168.48	[illegible]	[illegible]	[illegible]

**Saturday October 30: Taiwan Weighted Price 4131.88, Korea Comp Ex. [illegible] ♥ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: Austria Traded, 863.20, HEX Gen. [illegible] 1,000, JSE Gold - 255.7, JSE 20 Industrials - 264.3 and Australia All Ordinaries [illegible]

TOKYO - Most Active Stocks

Tuesday, November 2, 1993

	Stocks Traded	Closing Prices	Change on day
Toshiba Corp	4.4m	708	-6
Nippon Steel	3.3m	327	+1
Honda Motor	3.1m	1,620	+10
Sumitomo Mtl Min	2.2m	830	-8
Mitsubishi Heavy	2.2m	670	+9
Sony Corp	2.1m	4,970	+10
Sumitomo Bank	2.0m	2,400	+10
Daiichi Kangyo	1.9m	2,360	
Hitachi	1.8m	855	-8
Mitsubishi Bank	1.7m	3,090	+10

4 pm close November 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14 5/8	11 1/2	AAR	0.48	2.4	700	630	14	13 7/8	14	
29 3/8	13 3/4	A L Labs A	0.16	1.1	31	721	16 1/8	15 3/4	15 3/4	-5/8
67 1/4	54 5/8	AMP	1.60	2.0	22	1112	62 5/8	61 3/4	62 5/8	
72 3/4	55 1/2	AMR			54	1706	69 1/2	68 3/4	69 1/2	-3/4
3 7/8	1 3/4	ARX			13	332	3 3/4	3 5/8	3 5/8	
51 1/2	29 7/8	ASA	2.00	4.5	28	384	45 1/8	44 1/2	44 3/4	-1/4
30 3/4	22 7/8	AbbtL	0.68	2.4	17	9395	28 3/4	28 1/4	28 3/4	+1/4
12 7/8	8 1/4	Abitibi Pr	0.50	4.8	6	6	10 5/8	10 1/2	10 1/2	
15 5/8	9 1/4	Acptocein			46	21	14 3/4	14 1/2	14 3/4	
38	25 1/2	ACE Ltd	0.92	2.9		1170	32 3/4	32	32 1/4	-1/2
12	10 3/4	ACM Gvt In	0.96	8.3		203	11 3/4	11 5/8	11 5/8	-1/4
10 1/8	8 5/8	ACM GvOpp	0.90	8.8		70	u10 3/8	10	10	
10	8 3/4	ACM Gvt Sp	0.50	8.2		293	9 7/8	9 3/4	9 3/4	-1/4
11 5/8	10 1/2	ACM Gvt Se	0.96	8.3		3063	u11 5/8	11 3/8	11 1/2	
11 3/4	9 5/8	ACM Man	1.06	9.3		68	u11 3/4	11 5/8	11 5/8	
9 7/8	8 5/8	ACM Managd	0.72	7.6		155	9 3/4	9 5/8	9 5/8	
12 7/8	7 3/4	AcmeClv	0.44	4.3	15	74	10 1/4	9 3/4	10 1/8	+1/4
11 3/8	6 3/8	Acme Elect			70	50	9 7/8	9 3/4	9 7/8	-1/4
27 5/8	18 3/8	Acordia	0.44	1.8	13	121	24 3/4	24	24 1/8	-5/8
18	10 3/8	Acuson			63	482	13 7/8	13 5/8	13 7/8	+1/8
21 3/4	16 1/4	Adams Expr	0.48	2.5	9	162	19 5/8	19 1/4	19 3/8	
68 3/4	45 1/2	Ad Micro	3.00	6.0		84	50 1/8	49 3/4	49 7/8	-3/8
32 3/4	17 7/8	AdvMic	3.00	14.9	7	5345	20 1/2	20	20 1/8	-1/4
8 1/8	5 1/2	Advest Grp	0.10	2.1	13	122	7 3/4	7 1/2	7 1/2	-1/8
24 3/4	14 1/4	Advo Inc	0.08	0.5	70	189	14 7/8	14 1/2	14 7/8	+3/8
51 1/4	41 1/8	Aegon ADR	1.23	2.4	10	120	51 1/4	51	51 1/4	-1/2
66 1/4	43 3/8	AetnaL	2.76	4.3	27	2789	65 1/8	63 1/2	63 1/2	-2 3/8
34	26 1/3	Aflac	0.40	1.3	15	1232	30 3/4	30	30 5/8	-3/8
22 1/8	16 3/4	Ahmnan	0.88	4.6	8	8901	19 1/4	10 1/8	19	+1/2
7 3/4	3 5/8	Aileen Inc			7	423	5 5/8	5 1/8	5 1/4	-1/2
48 1/2	24 7/8	AirPrC	0.92	2.1	24	1961	43 7/8	43 3/8	43 5/8	+1/4
36 3/8	19 1/8	Airbne Frt	0.30	1.0	25	951	30 5/8	30 1/2	30 5/8	+1/8
[illegible]										

- A - (continued), - B -, - C -, - D -, - E -, - F -, - G -, - H -, - I -, - J -, - K -, - L -, - M -, - N -, - O -, - P - Q -, - R -, - S -

[illegible]

Continued on next page

4 pm close November 2

NYSE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
23½	16⅞	Safeg'd Sc			18	217	u23½	22¾	23⅛	+⅜
24¾	13¼	SafKl	0.36	2.7	20	1132	13⅝	13¼	13½	+⅛
22½	10⅞	Safeway			27	1679	u22⅝	22⅛	22½	+¼
5¾	2	SafewayW96				677	5⅛	5	5⅛	
55	37½	StJoePaper	0.20	0.4	143	77	48⅞	48⅛	48⅞	
37⅞	31	StJoeLP	1.76	0.0	14	18	35⅛	34⅞	35⅛	
98	75	StPaul	2.80	3.0	15	906	93⅝	92¾	93¼	+⅛
11⅞	7⅞	Salant Crp			3	105	7⅞	7⅝	7⅞	-⅛
76¼	35⅞	Sallie Mae	7.20	2.7	6	3983	44⅝	43¾	44¼	
14⅞	13	Salomon Br x	0.32	2.3		305	14¼	14⅛	14⅛	-¼
51⅞	34	Salomon	0.64	1.4	11	1959	45½	45⅛	45⅛	-⅛
27¼	23¼	SnDgGE	1.48	5.6	14	1500	26¾	26	26¼	
5	9½	SantaFeEDu	0.40	8.2	48	10	4⅞	4⅞	4⅞	-⅛
11⅞	9⅛	SantaFeERs	0.16	1.6	329	1566	10⅛	9¾	9⅞	
40¾	35¼	SantaFePac	2.80	7.0	19	65	39¾	39	39¾	
19⅝	12¼	SanFeP	0.10	0.5	8	3236	u19⅝	19¼	19½	+⅝
31⅞	23	SaraLee	0.88	2.2	18	3769	26⅞	26⅛	26⅝	+½
52¼	40⅞	Scana Corp	2.74	5.4	13	128	51⅜	50¾	50⅞	
25¾	20	Scecorp	1.42	6.9	14	10878	21	20⅝	20⅝	-½
36⅞	23⅞	SchererRP			27	139	33⅜	33⅛	33¼	-⅛
71	51¾	SchrPl	1.80	2.8	16	3278	68⅞	67⅝	68¼	+⅛
68⅞	55⅞	Schlmb	1.20	1.9	24	8879	63¾	63	63	-⅞
36⅞	16½	Schwab(C)	0.20	0.6	15	2490	33½	32⅛	32¼	-1⅛
7¾	5⅞	Schwitzer			41	105	7⅛	6⅞	7	+⅛
39⅞	17¾	SciAtl	0.12	0.3	53	1177	35⅝	34⅞	35⅝	+⅞
13⅞	9⅛	ScottInn	0.10	0.8	12	z160	12¾	12¼	12¼	-⅛
41	31	ScotP	0.80	2.2	22	1502	36⅞	35½	35¾	-⅞
28⅞	14¼	ScuddrNwF	0.21	0.0		186	25⅝	25⅛	25⅝	+⅛

[illegible]

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close November 2

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close November 2

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMERICA

US stocks come off highs on profit-taking

Wall Street

PROFIT-TAKING and rising bond yields took the shine off US stock markets yesterday morning, bringing share prices down from their record highs, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was down 11.74 at 3,680.87, but off its low for the day of 3,667.46. The more broadly based Standard & Poor's 500 was 1.99 lower at 467.11, while the Amex composite was up 0.27 at 482.84, and the Nasdaq composite down 1.50 at 782.27. Trading volume on the NYSE was 175m shares by 1 pm.

After Monday's record-breaking gains, when confidence in the economic outlook pushed blue-chip stocks to new highs, investors took the opportunity to book some profits early yesterday. At one stage the Dow was down 25 points.

Also adding pressure to stocks was another rise in bond market yields. As on Monday, news of strengthening economic activity depressed bond prices, and pushed up yields at the long end to almost 6.1 per cent. The trigger for the selling was the report of a 20.8 per cent rise in September home sales. The increase, the largest since 1986, was well ahead of forecasts. The day's other news – a 0.5 per cent increase in September leading economic indicators – was also bearish for bonds but bullish for stocks.

Consequently, after suffering sharp declines in early trading, prices eventually regained some of their lost ground by midday. Analysts said that the rise in bond yields, while worrying, had not been large or rapid enough to offset the positive implications of recent economic data. This has helped share prices stay close to their all-time highs.

The Dow would have fallen further but for a big gain in IBM. Following a dalayed opening due to an order imbalance, IBM rose $2⅛ to $49⅞ in volume of 5.3m shares after brokerage house Donaldson, Lufkin & Jenrette raised its rating on the stock from "neutral" to "very attractive".

Forestry product stocks were in demand for the second consecutive day. Louisiana-Pacific jumped $2⅞ to $41, Georgia-Pacific climbed $1⅛ to $68⅛ and International Paper added $⅞ at $62⅞.

Wal-Mart rose $⅝ to $26⅝ on the news that it was buying the Pace warehouse clubs from arch-rival Kmart. The news left Kmart unchanged at $24⅞.

WorldCorp jumped $1⅛ to $5⅞ on the news that Malaysian Helicopter planned to buy a 24.9 per cent stake in the company for $27.4m.

On the Nasdaq market, Geotek Industries rose $2⅛ to $12⅞ in volume of 3.8m shares after the company said that several big investors, including the influential money manager Mr George Soros, were investing $40m in the company to build wireless telecommunications networks overseas.

Canada

TORONTO was mixed at noon on profit-taking and in line with the softer tone on Wall Street. The TSE-300 composite index shed 7.47 to 4,240.55 in turnover of C$394m. Advances outpaced declines by 353 to 279 with 316 issues unchanged. Among actively traded issues, PWA Corp added 11 cents to C$1.08.

EUROPE

Daimler fails to put brake on Dax rally

GERMANY was the story of the day, but some other markets dropped back on individual news, *writes Our Markets Staff.*

FRANKFURT had a phenomenal session, a surge of 33.46 in the DAX index to 2,086.58 taking its gain to nearly 36 per cent on the year so far, turnover soaring from DM4.1bn to DM11.1bn and the Ibis-indicated DAX breaking 2,100 at one point in the afternoon before edging back to 2,086.40 at the post-bourse close.

Mr Bernd Pinnicke, equity analyst at Deutsche Bank Research, forecast that the DAX would rise to between 2,400 and 2,500 in the next three to six months. Liquidity from abroad was still flowing in and many domestic investors, he said, were still under-invested in equities.

The fundamental news was not good. Daimler indicated that it might be considering a reduction in its 1993 dividend and this merely cost it a below par share price rise of DM4.50 to DM752. Mr Harry Jaarsma, of Dresdner Bank in Frankfurt, observed that the DB Research forecast would put the market on a prospective 1994 p/e of between 22.6 and 23.6.

Mr Jaarsma noted outperformance among second liners like AEG, up DM7.30 to DM174.50 for a two-day gain of DM11.50, and among engineers where Linde rose DM24 to DM874 and Mannesmann by DM10.90 to DM354.20.

PARIS drifted lower and the CAC-40 index settled just above the day's low, down 12.24 at 2,169.71.

BZW's European equity strategists have recently upgraded their weighting in France to overweight, arguing that the market's recent underperformance "has been driven by a deterioration of relative sentiment rather than fundamentals".

This positive attitude was echoed by Kleinwort Benson's research team. Maintaining an overweight position in France against Germany, they suggested that when the switch into equities does come – probably triggered by a further easing in interest rates – it will be domestically driven and therefore less vulnerable to US profit-taking.

Peugeot slipped FFr8 to FFr646 ahead of reporting an 8.5 per cent fall in third quarter turnover.

STOCKHOLM declined on worries over Volvo's proposed merger with Renault of France and a downgrade by Morgan Stanley of Astra, the pharmaceutical company. The Affärsvärlden general index lost 11.9 to 1,435.9.

Volvo closed off SKr14 to SKr427 as it announced a one month postponement of a shareholders meeting to discuss the merger proposals.

Astra lost SKr8 to SKr163 on the downgrade. Mr James McKean, pharmaceuticals analyst at Morgan Stanley, reduced his estimate for earnings growth to 20 per cent from 25 per cent given "the more difficult environment for healthcare companies in the 1990s."

MILAN focused attention on developments involving Mr Carlo De Benedetti, the Olivetti chairman, and the Comit index eased 3.66 to 579.75, also reflecting political concerns after the budget minister warned that the government's proposals might not win parliamentary approval before the year-end deadline.

Olivetti was marked down 4.8 per cent before paring the loss to finish L49 or 2.7 per cent lower at L1,752 as the chairman surrendered to police in response to an arrest warrant issued by Rome magistrates, investigating alleged corruption.

ZURICH remained in record territory, with the firm dollar and interest rate outlook again providing the conditions for a 15.8 rise in the SMI index to 2,742.9.

Winterthur bearers added SFr31 to SFr849 as the insurer forecast higher profits in 1993. The positive tone helped Zurich Insurance, up SFr29 to SFr1,387 and Swiss Re, up SFr50 to SFr3,820.

AMSTERDAM remained on the upward track with the CBS Tendency index adding a further 1.3 to 137.7, although off the day's high of 138.5. VNU was a strong riser in low volume, adding Fl 6.50 to Fl 154.00.

BRUSSELS recorded a new year's high with a substantial amount of foreign buying being seen. The Bel-20 index rose 4.22 to 1,385.70 in turnover of some BFr1.9bn.

MADRID's US quoted stocks reflected mid-morning weakness on Wall Street, Repsol falling Pta40 to Pta3,995 as the general index closed 1.03 lower at 307.17.

ATHENS lost a further 1.6 per cent after Monday's decline of 1.5 per cent as many investors continued to take profits. The general index fell 13.43 to 807.37.

ISTANBUL settled down 1.9 per cent on fears that the coalition might split. The composite index tumbled 267.1 to 13,668.1.

Written and edited by William Cochrane, John Pitt and Michael Morgan.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

November 2	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1379.28	1380.54	1381.80	1385.99	1385.37	1388.92	1383.15	1382.38
FT-SE Eurotrack 200	1443.96	1444.84	1444.67	1449.13	1449.01	1448.47	1445.39	1444.39

	Nov 1	Oct 29	Oct 28	Oct 27	Oct 26
FT-SE Eurotrack 100	1375.31	1374.61	1369.48	1367.82	1377.10
FT-SE Eurotrack 200	1440.75	1439.45	1435.53	1430.55	1437.92

ASIA PACIFIC

No let-up in region's record-breaking run

Tokyo

SHARE prices edged down on position squaring ahead of today's national holiday and the Nikkei average ended marginally lower on arbitrage-related selling, *writes Emiko Terazono in Tokyo.*

The 225-issue index lost 57.00 at 19,381.24 after registering a day's low of 19,342.03 and high of 19,549.15. The focus of attention was once again East Japan Railway, which finished Y3,000 firmer at Y496,000, after moving between Y491,000 and Y501,000.

Volume remained low, at 210m shares against 197m, and falls led rises by 518 to 438, with 199 issues unchanged, although the Topix index of all first section stocks put on 2.12 at 1,621.87. In London the ISE/Nikkei 50 index gained 1.13 at 1,288.99.

The market remained generally resilient to news of the financial crisis at Muramoto Construction, an unlisted contractor, which filed for court protection on Monday with debts of Y590bn.

Daiwa Bank, Muramoto Construction's leading creditor, declined Y50 to Y1,180. However, elsewhere in the banking sector, Sakura Bank rose Y10 to Y1,700 and Fuji Bank Y20 to Y2,360. Real estate and construction companies were also lower, with Mitsui Fudosan down Y20 to Y1,290, Shimizu falling Y15 to Y853 and Sato Kogyo off Y10 at Y760.

Sumitomo Metal Mining retreated Y6 to Y830 after weak interim earnings on Monday, and as margin traders, who had bonght the stock six months earlier on rising gold prices, liquidated holdings.

The rise in JR East helped other railway issues, Seibu Railway improving Y150 to Y3,900.

Consumer electronics stocks were higher on bargain hunting. Matsushita Electric Industrial firmed Y10 to Y1,470 and Sony Y10 to Y4,970. Toyota Motor, which rose on foreign buying on Monday, shed Y30 to Y1,870 on profit-taking.

In Osaka, the OSE average dipped 21.34 to 21,489.77 in volume of 12m shares.

Roundup

PACIFIC Rim markets continued their record-setting ways. Manila was closed.

HONG KONG again set a record closing peak, although late profit-taking had wiped out much of the day's gain. The Hang Seng index was finally 13.72 ahead at 9,642.91, after reaching 9,716.38.

Profit-takers began the day by dragging the index down 68 points before major buyers regained the upper hand, although buying slowed as the index topped the 9,700 level.

Second and third liners led the active list; they were sought by retail investors who have been trying to avoid expensive blue chips.

SINGAPORE picked up late in the day, taking the Straits Times Industrial index 18.17 higher to a record 2,123.85. The newly listed Singapore Telecom eased 14 cents to S$4.00.

BANGKOK added another 2.4 per cent, with the banking sector selected by investors. The SET index rose 31.59 to 1,357.75 in turnover of Bt26.7bn. Among the actives, Thai Farmers Bank gained Bt7 at Bt117 and Bangkok Bank Bt10 at Bt182.

NEW ZEALAND remained firm following good half-year results from Telecom, which rose to an all-time high of NZ$4.69 immediately after the announcement, but then fell back to NZ$4.57, down 3 cents on the day. The NZSE-40 index closed at a four-year peak of 2,203.09, up 3.59 points, in turnover of NZ$55.7m.

AUSTRALIA retreated for the first time since October 25, with the All Ordinaries index losing 7.1 to 2,125.3. Turnover was A$337.05m. A weaker bullion price contributed to the change of sentiment and the golds index fell 36.0 to 2,173.6.

Foster's Brewing, the day's most active stock, added 6 cents at A$1.54, while BHP lost 8 cents to A$17.80 and Western Mining 10 cents to A$5.46.

KUALA LUMPUR closed higher but trading was subdued due to investor caution and trading restrictions by some stockbroking firms. The composite index advanced 5.31 to 972.26.

Malaysian Airline System gained M$1.30 at M$7.65 amid speculation that the government planned to place shares it holds in the group. Malaysian International Shipping, in which the government also has a stake, rose 55 cents to M$7.20.

SEOUL finished lower as sales by institutions of issues with low price-to-book ratios won a tug-of-war with buyers of blue chips in the manufacturing sector. The composite index shed 2.34 to 759.42 in turnover of Won941.48bn.

SOUTH AFRICA

INDUSTRIAL shares maintained steady progress, while golds saw a slight gain following Monday's sharp fall. The industrials index rose 18 to 4,557, golds 3 to 1,703 and the overall 7 to 3,914. De Beers put on 25 cents at R83.50.

Action in drugs sector as Bombay waits for a wind

RC Murthy on a market currently in the doldrums

When world markets dropped early last year, the Bombay Stock Exchange was at the crest of a wave. But now, with global markets in buoyant form, and feverish excitement in the Pacific Basin further east, India is in the dumps.

The process of integrating India with the world economy has begun in earnest, but the local stock market still moves in its own orbit, unconcerned with world developments.

Bombay's bourse, India's largest, has been haunted for some time by the controversy surrounding Mr Harshad Mehta, the key broker in India's Rs40bn securities market scandal; it has current political fears, with Kashmiri terrorists holed up in a Srinagar mosque under siege by the army.

It is two weeks since brokers concluded a four-day trading strike which shut down the bourse after a judge delayed settlement of a dispute over shares seized by tax authorities investigating the securities scandal. Since that time, the market has looked unhappy.

Traders fear further interruptions in trading. The income tax department has vowed to track down Mehta-owned shares sold on the market with the connivance of some fellow brokers.

Meanwhile, the BSE index, which closed at 2,730.29 in a special trading session on October 19 following the resolution of the brokers' strike, dropped a further 52.46, or 2 per cent, to 2,621.28 on Monday, and stayed flat yesterday amid a general lack of interest.

There have been bright spots. Pharmaceutical companies, especially transnationals, have stood their ground after impressive gains over the past three months: Abbott Laboratories jumped by two-thirds to Rs200 between August and October, Boehringer Mannheim by nearly one half to Rs130 and E Merck by a third to Rs115. Glaxo India was up to Rs293.50, from Rs230 at the end of July.

According to James Capel, investors have taken a fancy to foreign company shares. The market perceives that foreign companies have access to high technology, resources and efficient management.

There are more specific reasons for the drug industry enthusiasm. Traders have driven up share prices, expecting major changes in the draconian drug price policy that stifled profitability and growth of foreign companies over the past two decades; in addition, says Capel, there is a feeling that India will join the Paris convention on patents. That would eliminate competition from cheap imitations.

However, there are warning signals, of which Roche India is an example. This year it peaked at Rs170, with a p/e of more than 40, and brokers said this was a high price for a company which returned to black only last year, and paid its first dividend in five years.

The bubble burst at the weekend when news leaked to the press that the company's Swiss parent was less optimistic than Indian share traders on Indian government drug policies – and sold its subsidiary to a local businessman.

Carmakers have also attracted the traders' attention. Favourable comments by General Motors on the Indian car industry boosted the Calcutta-based Hindustan Motors, although it passed the dividend last year; and the recession-hit Tata Engineering, the largest truck producing company, jumped to Rs270 from Rs240 after Mercedes Benz hinted at a joint venture with Tata.

The broad market will have to reckon with the fallout from a special parliamentary committee report on the securities scandal, due next month. This could make it difficult to mount a major rally in the immediate future.

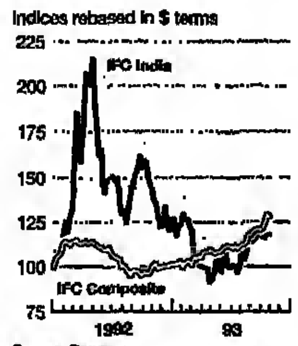
The fundamentals are more encouraging for the medium term. They include a good monsoon, strong foreign exchange reserves ($6bn), good half-yearly corporate results and the prospect of an IMF agreement to a medium-term financing programme.

Lehman Brothers, in London, notes that the market has declined by some 40 per cent in local currency terms from its April 1992 "scam-induced" peak of 4,547. However, it likes India's sheer size, its growing middle class population, its well developed local equity culture, its huge pool of cheap skilled labour and the significant pool of non-resident Indian money.

Lehman, too, thinks that it is too early for a rally; but it says that this is a good time to start building up Indian exposure to at least a neutral weight position, to benefit from a possible pre-budget bull run towards the end of 1993.

India

Indices rebased in $ terms



Source: Datastream

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 1 1993							FRIDAY OCTOBER 29 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (69)	162.83	+2.2	163.00	111.37	143.36	160.55	+1.0	3.23	159.37	158.95	109.20	139.15	159.00	162.83	117.38	113.59
Austria (17)	178.34	-1.0	178.53	121.98	157.02	156.84	+0.0	1.00	180.23	179.76	123.50	157.38	158.94	184.47	131.18	145.63
Belgium (42)	149.33	-1.2	149.49	102.13	131.47	135.52	+0.0	4.25	151.18	150.78	103.58	132.00	135.52	156.76	131.19	137.33
Canada (107)	133.31	-0.1	133.45	91.17	117.37	127.13	-0.5	2.63	133.51	133.18	91.48	116.57	127.71	133.51	111.41	120.35
Denmark (32)	236.38	-0.7	236.64	161.88	208.12	218.86	-0.1	1.04	238.10	237.47	163.15	207.90	219.16	238.12	185.11	184.80
Finland (23)	123.71	-1.7	123.84	84.61	108.92	150.54	-1.0	0.69	125.88	126.55	86.26	109.92	152.13	126.88	65.60	66.13
France (93)	166.73	-0.8	166.90	114.02	146.78	155.02	+0.0	2.99	168.07	167.63	115.15	146.74	155.02	173.05	142.72	144.70
Germany (60)	132.72	-1.0	132.86	90.79	118.85	116.85	-0.2	1.82	134.11	133.78	91.91	117.10	117.10	136.12	101.59	103.49
Hong Kong (55)	384.90	+3.2	385.31	263.25	338.90	381.81	+3.2	2.77	372.88	371.90	255.50	325.60	369.96	384.90	218.82	255.52
Ireland (14)	171.66	-1.5	171.84	117.41	151.14	173.84	-0.5	3.23	174.19	173.73	118.36	152.10	174.44	174.50	129.26	129.83
Italy (70)	68.06	-1.2	68.13	46.55	59.92	83.94	+0.0	1.99	68.92	68.73	47.22	60.17	83.94	78.93	53.78	59.42
Japan (469)	150.54	-0.5	150.70	102.96	132.56	102.96	-0.7	0.80	151.33	150.94	103.69	132.16	103.69	165.91	100.75	103.32
Malaysia (69)	474.73	-0.5	475.24	324.69	417.96	468.33	-0.3	1.46	476.92	475.67	326.78	416.42	469.57	476.92	251.86	274.54
Mexico (19)	1850.14	+1.7	1852.13	1265.40	1628.95	6331.51	+1.6	0.78	1819.27	1814.48	1246.59	1588.53	6221.88	1867.70	1410.30	1482.56
Netherland (25)	194.70	-0.2	194.90	133.15	171.42	169.06	+0.7	8.24	195.05	194.54	133.65	170.32	167.86	195.17	150.39	151.77
New Zealand (13)	68.38	+1.8	68.46	46.77	60.21	65.44	+1.5	3.39	67.33	67.15	46.13	58.79	64.48	68.38	40.56	37.39
Norway (23)	181.58	-1.6	181.78	124.19	159.88	181.95	-0.7	1.40	184.46	183.97	126.40	161.07	183.27	185.10	137.71	137.02
Singapore (38)	318.83	-1.3	318.18	218.07	280.71	233.84	-1.1	1.44	323.14	322.29	221.42	282.15	236.32	332.55	207.04	197.24
South Africa (60)	212.07	-1.1	212.30	145.04	186.71	196.53	-0.4	2.71	214.53	213.97	147.00	187.32	187.41	218.72	144.72	147.71
Spain (42)	142.86	-0.7	143.01	97.71	125.78	146.32	+0.0	4.04	143.81	143.44	98.55	125.57	146.32	145.24	115.23	108.57
Sweden (36)	201.87	-0.9	201.89	137.93	177.56	244.73	-0.3	1.38	203.54	203.00	139.47	177.73	245.49	206.92	149.70	155.07
Switzerland (50)	145.50	-1.0	145.65	99.52	128.12	135.39	+0.2	1.60	146.93	146.55	100.69	128.31	135.18	148.18	108.91	109.10
United Kingdom (218)	190.08	-0.6	190.29	130.00	167.34	190.29	-0.2	3.75	181.21	180.71	131.01	166.95	190.71	193.97	162.00	163.34
USA (519)	191.06	+0.2	191.29	130.70	168.25	191.06	+0.2	2.69	190.65	190.14	130.64	166.47	190.65	191.56	175.38	172.60
Europe (750)	160.22	-0.8	160.39	109.58	141.07	154.78	-0.1	2.93	161.46	161.04	110.64	140.98	154.90	162.97	133.92	132.21
Nordic (114)	190.63	-1.0	190.84	130.39	167.84	201.15	-0.4	1.22	192.60	192.10	131.96	168.18	201.95	194.54	142.13	142.00
Pacific Basin (713)	159.33	-0.2	159.50	108.98	140.29	113.10	-0.4	1.07	159.63	159.21	109.38	139.39	113.54	168.80	105.89	108.47
Euro-Pacific (1463)	159.59	-0.4	159.76	109.14	140.50	129.78	-0.3	1.84	160.28	159.85	109.81	139.94	130.10	162.88	117.26	118.07
North America (626)	187.48	+0.2	187.69	128.24	165.10	186.71	+0.2	2.69	187.08	186.59	128.21	163.38	186.33	187.68	171.51	169.34
Europe Ex. UK (532)	141.03	-0.9	141.18	96.48	124.20	133.74	+0.0	2.40	142.29	141.91	97.52	124.27	133.73	143.73	112.51	113.27
Pacific Ex. Japan (244)	244.37	+1.8	244.64	167.16	215.18	225.59	+1.5	2.60	239.97	239.34	164.45	209.55	222.18	244.37	152.70	159.02
World Ex. US (1649)	160.35	-0.4	160.52	109.69	141.18	131.98	-0.2	1.86	161.00	160.58	110.33	140.59	132.30	162.89	118.51	118.29
World Ex. UK (1950)	167.60	-0.1	167.78	114.64	147.59	146.41	-0.1	2.01	167.81	167.36	114.99	146.54	146.49	168.66	134.22	133.77
World Ex. So. Af. (2108)	169.40	-0.2	169.58	115.87	149.18	149.92	-0.1	2.17	169.87	169.23	116.27	146.17	150.02	170.46	137.29	136.37
World Ex. Japan (1699)	181.53	+0.0	181.72	124.17	159.85	177.74	+0.2	2.75	181.56	181.09	124.42	158.56	177.38	181.56	157.47	155.08
The World Index (2168)	169.56	-0.2	169.76	115.99	149.32	150.35	-0.1	2.17	169.87	169.42	116.40	148.34	150.45	170.68	137.32	136.34

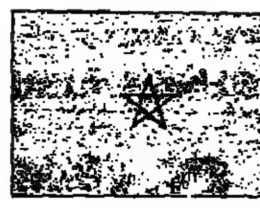
Constituent change with effect 8/11/93: Addition: Singapore Telecom (Singapore). Latest prices were unavailable for this edition. Markets closed November 1: Austria, Belgium, France, Italy and Spain.

■ Foreign policy stance seems to have been vindicated. Page 4

FINANCIAL TIMES SURVEY

MOROCCO

Wednesday November 3 1993



Morocco is more self-confident than in 1983 when a balance of payments crisis forced it to reschedule foreign debt. King Hassan provides stability and there has been some progress on liberalising the economy, write **Roger Matthews** and **Francis Ghiles**

Press on the accelerator

Morocco is in the process of reviewing its identity. Geographically, it is part of north Africa, but emotionally it is strongly tied to the Arab world. Devotionally, it belongs to Islam, but economically it has decided that it wishes to be linked to Europe.

The priorities given to those potentially conflictive characteristics, under the leadership of what remains ultimately an absolute monarchy, is likely to define Morocco's capacity to realise its considerable potential during the remaining years of this century.

The one apparently sure thing is that the changes will be gradual and the signposts may simultaneously point in different directions. King Hassan II, who appears to sit more comfortably on his throne than at any time since he took over from his father Mohammed V in 1961, exercises his power with acknowledged skill but not always with the most obvious intentions.

The interpretation of royal wishes, like the sources of information and the identity of the most influential advisers at the royal court, has long been one of Rabat's most engrossing activities.

There are, however, certain imperatives which no monarch or government can safely ignore. Morocco's population of some 26m (it could be a million or two more) is growing by at least 2.2 per cent a year. Some 50 per cent of Moroccans are under 20 years old and more than 50 per cent of adult males are illiterate. Urban unemployment is unofficially estimated at 20 per cent or more, while there is considerably greater underemployment in rural areas.

World Bank studies suggest that 13 per cent of the population lives below the poverty line, with another 8 per cent only marginally above it. Income disparities are substantial, particularly between town and country. Across a wide range of social indicators, Morocco lags well behind other countries with similar per capita incomes.

The need for social advancement, especially among the most disadvantaged, has taken on greater urgency with the spread of Islamic militancy throughout the Arab nations. The alarming social, political and economic deterioration in neighbouring Algeria is an uncomfortably close reminder of what can happen when an entrenched government fails to respond adequately to popular demands.

Plentiful reasons can be advanced to explain why Morocco will continue to avoid the pitfalls suffered by its neighbour. King Hassan enjoys widespread respect, if not always affection. His judgment and policies on major foreign policy issues, such as the Arab-Israel conflict and the Gulf war, have been substantially vindicated.

The visit to Rabat in September by Mr Yitzhak Rabin, Israel's prime minister, recognised the importance of King Hassan's long-term commitment to a negotiated peace settlement. His support for the western-led military action to evict Iraqi forces from Kuwait flew in the face of popular sentiment, but is now seen by many Moroccans to have been a politically astute decision.

The "green march" in 1975, which brought the Western Sahara under Moroccan control, is still disputed by the international community but looks increasingly irreversible and was, in domestic terms, arguably the single most important decision of King Hassan's reign.

As Commander of the Faithful and a direct descendant of the Prophet, King Hassan can also claim a religious authority which appears to be largely unchallenged. Some Moroccans say they sense a growing Islamic militancy, but are hard pressed to provide evidence of it.

The country's political parties are all, to a greater or lesser extent, monarchist. When this embraces even the communists, the scope for ideological debate is necessarily limited and confines itself to policy priorities rather than fundamental aims.

The first round of elections for a new parliament earlier this year was thought by independent observers to be relatively free. The second round, for reasons that are not immediately obvious, fell miserably short of that objective. But despite the disputed outcome, Morocco is advancing, however slowly, towards a more representative form of government in which the prime minister theoretically enjoys greater freedom of action.

Rather more impressive progress has been made during the past decade in the structural readjustment of the economy along lines encouraged by the IMF and World Bank. The budget deficit has been reduced to about 2 per cent of GDP, the current account deficit has dropped sharply as exports increased, rescheduling agreements have lowered the debt service ratio and inflation has been reduced to around 5 per cent.

Windfall benefits, such as Saudi Arabia's agreement to wipe out debts of more than $3bn following the Gulf war, have, however, been offset by two years of drought which last year curtailed agricultural output and caused an estimated 3 per cent fall in gross domestic product.

The vagaries of the weather, and the consequent sharp fluctuations in annual GDP, lend even greater weight to arguments advanced by members of the business community for a more vigorous approach to the liberalisation and diversification of the economy. They acknowledge that the government is edging in the right direction.

A range of measures over the past few years, including a reduction in tariffs, lower import duties, an easing of licensing restrictions, the convertibility of the dirham, financial sector reforms and the privatisation programme is helping to make the economy more market-oriented.

One immediately beneficial result has been a sharp increase in direct foreign investment which last year was estimated at $500m, more than double the figure for 1990.

But whether this is happening quickly enough to create the hundreds of thousands of new jobs that Morocco needs every year to satisfy new entrants to the labour market is open to doubt. The pace of industrialisation remains sluggish compared with many other countries at a similar stage of development. It must accelerate if Morocco is to take full advantage of the partnership agreement it is negotiating with the European Community.

The economic picture is additionally complicated by the ill-defined but undoubtedly substantial "informal sector", which ranges from an impressive array of illegal imports to the flourishing production and export of cannabis, said by some diplomats to account for about 30 per cent of Europe's annual consumption and to be worth around $2bn a year. Such trade can only complicate Morocco's desire to strengthen its links with the EC, while also posing uncomfortable questions about the country's policing and judicial system.

How keenly Morocco intends to address these issues depends heavily on King Hassan and the legacy he wishes to bequeath. He is only 64 and in good health, but the political dominance of the monarch is such that any discussion in Rabat about Morocco's future cannot avoid the issue of the succession.

The king's experience and skills in manipulating and balancing the diverse centres of power and influence within the country are unlikely to be inherited intact by Crown Prince Sidi Mohammed, who may anyway wish to pursue a less directly interventionist role. Many Moroccans accept that for the next few years at least the country will need a strong, unifying force at the centre.

If there is a vision and an example of how Morocco should evolve in the next two decades, the most often mentioned is that of Spain, just 14 kilometres away.

Morocco, like Spain in the 1950s and 1960s, is authoritarian, close to Europe but far from it politically, agricultural but with huge industrial and tourism potential, and with a growing nucleus of young professionals who are internationally aware but increasingly frustrated by a cumbersome and restrictive bureaucracy.

By the time of General Francisco Franco's death in the mid-1970s, the growth of the Spanish economy and a burgeoning middle class had laid the basis for a relatively smooth political liberalisation and eventual transfer of power.

It might seem wildly fanciful today to see Crown Prince Sidi Mohammed as a future King Juan Carlos, but as a signpost for the future it points in a general direction that most other Arab populations would envy.

A Moroccan street scene: the economy is becoming more market-oriented but the business community wants a more vigorous approach

IN THIS SURVEY

Editorial production Gabriel Bowman
Design Robin Coles

Scheherazade Daneshkhu on economic problems and achievements

Debt is under control but change is still needed

IN THE expanding high rise buildings of Casablanca, Morocco's industrial and banking base, the whiff of dynamism and of an economy at work is strong. And it is in Rabat, the seat of the king, his ministers and of decision-making, that the quiet hum of satisfaction at the country's recent economic successes can be discerned.

Morocco, which at one stage looked as if it would go the way of Latin America, appears to have escaped the fate of countries that are saddled by increasing debt and uncontrollable inflation. Instead, it presents an impressive macro-economic record. It still faces an enormous challenge, however, in trying to improve the country's social development record.

The origin of Morocco's debt problem is to be found in the severe bout of overspending in the 1970s when, after the rise in the price of oil by the oil-producing countries, the price of phosphates, Morocco's largest mineral export, also increased. It went on a spending spree and invested heavily in the development of the phosphate industry – three-quarters of the world's phosphate reserves are in Morocco – but by the early 1980s the collapse of world prices for phosphates, the cost of importing oil and a drought conspired to make it turn to the IMF for help.

Morocco has followed a regime of structural reform since 1984 which has been so well implemented by Mr Mohammed Berrada, the finance minister, that the country has been held up by international institutions as a role model for countries in chronic economic difficulties.

At one stage it looked as if Morocco would go the way of Latin America

The government's budget deficit has been steadily reduced from around 12 per cent of gross domestic product in the early 1980s to under 2 per cent in 1992. The current account deficit in the balance of payments has also been brought down from 10 per cent to less than 2 per cent over the same period.

This, combined with steady export-led growth, has allowed Morocco to control its total external debt of just over $21bn. The ratio of debt outstanding and disbursed to GDP dropped from 113 per cent during 1984-87 to 73 per cent in 1992. The ratio of paid debt service to exports declined from 31 to 28 per cent over the same period.

Debt-service repayments with the Paris Club creditors, which account for about half the debt, have been rescheduled several times in the 1980s and what is billed as the last rescheduling took place in February 1992. Some $2.7bn owing to Saudi Arabia was written off by Riyadh in thanks for Morocco's support of the coalition forces in the war against Iraq.

Morocco hopes that another politically correct tactic will also prove profitable. Rabat was the stopover for a press conference by Mr Yitzhak Rabin, the Israeli prime minister, and Mr Shimon Peres, his foreign minister, who lauded the warm welcome extended to them by King Hassan. Morocco is hoping that the move will help attract foreign investment to the country. Last year it increased to $514m from $330m the year before.

The result of macro-economic discipline has been to save Moroccans from the ravages of inflation. The inflation rate averaged 5 per cent last year, compared to 8.2 per cent in 1991. The dirham has also held its value, allowing the government to introduce dirham convertibility for international transactions in January with full convertibility as the goal.

Despite the years of austerity and the cuts in government spending, the economy has managed to grow, albeit erratically, due to its dependence on the agricultural sector, which is in turn victim to the vicissitudes of rainfall. Gross domestic product averaged 4.5 per cent over the period 1985-1991 but the economy contracted by 3 per cent last year due to a drought which is now in its second year. The current slump has also been exacerbated by recession in Morocco's main export markets, notably France, which takes some 30 per cent of Moroccan exports.

The trade deficit therefore worsened in 1992 to $2.4bn from $2.1bn in 1991, although higher tourism receipts as the sector recovered from the slump caused by the Gulf War which, along with greater remittances from Moroccans working abroad, is the country's main source of foreign exchange earnings, narrowed the current account deficit to just over $500m in 1992 from $550m in 1991.

Inflation averaged 5 per cent last year and the goal is full dirham convertibility

The government is now trying to accelerate a process of liberalisation and privatisation to attract foreign investment. In an open letter in July, King Hassan asked Mr Muhammad Karim Lamrani, the prime minister, to speed up the implementation of the structural and administrativa reforms to create a favourable environment for productive investment but also to take measures which will allow investors, in the short term, to cope with the vagaries of the economic environment.

However, the success of the structural adjustment programme can mask the very real economic problems facing the majority of the population. A recent World Bank report highlighted lagging performance in social indicators and labour absorption: despite recent progress in reducing poverty, such indicators as child mortality, nutritional status for the lowest income groups, access to safe water, and literacy and primary school enrolment rates, especially among women, remain well below averages for countries with similar per capita incomes.

There has been some improvement since the mid-1980s but many Moroccans feel that the government reacts only when it has no choice. One such time was in 1990, when violent protests against poverty and unemployment prompted an increase in social spending by the government. The population of 25m is young, with over 75 per cent below the age of 25 years. Unemployment, even for university graduates, is a real problem and the most recent estimates, for 1991, put unemployment at 20 per cent in urban areas, compared to 12 per cent 10 years earlier.

Comparisons with neighbouring Tunisia are not flattering. While GNP per capita in Morocco is $1,030, it is $1,523 in Tunisia. About one in seven Moroccans lives below the poverty line (an improvement on one in five in 1985) compared with one in 15 in Tunisia. The infant mortality rate is 65 per 1,000 births compared to 43 per 1,000 in Tunisia and life expectancy is 62 years against 70 years for a Tunisian.

About 45 per cent of the population in Morocco lives in the countryside and the rural-urban gap is enormous. Primary school enrolment rates are 73 per cent for boys and 54 per cent for girls, but as low as 35 per cent for girls living in the countryside. Only 23 per cent of the rural population is literate compared with 63 per cent in urban areas. The government is now preparing a strategy to improve living conditions for the poor and has come under pressure from the World Bank to do so, since the second tranche of tha Structural Adjustment Loan is dependent on the materialisation of the report.

Some government members are unhappy about the pressure being exerted upon them. "Social development has become fashionable," said one minister. "But how are we to control the economy and spend money on the social side? We need to invest in social development but you can only do that if you have money and for that you need growth."

The government also faces criticism and resentment from its seemingly prosperous business class. "I'm appalled at all the stories about how Morocco's economy is perfect when we all know there are so many problems," says one Moroccan industrialist unhappy at the country's weak industrial structure. "Why do you think foreign investors do not come to Morocco? It is because the business climate is so bad."

One in seven Moroccans lives below the poverty line compared with one in 15 in Tunisia

Businesses are suffering from a severe shortage of office space due to property speculation which has left rents beyond the reach of all but the very wealthy. As a result, buildings stand empty while accommodation is acutely needed.

While good laws exist, some people complain that the judiciary cannot be relied on to implement them and that it is up to the country's political leaders to set an example.

Morocco will need change from the top if it is to capitalise on its impressive record of structural adjustment and rely on the development of its own productive resources to ease poverty and encourage an efficient economy.

Key Economic Indicators

	1989	1990	1991	1992	1993*
Real rate of GDP growth (%)	2.5	3.7	5.1	-2.9	3.0
Exports ($bn)	3.3	4.2	4.3	4.0	3.5
Imports ($bn)	5.5	6.9	6.9	7.4	6.5
Trade deficit/GDP (%)	-9.4	-10.4	-9.3	-11.7	-10.9
Current account deficit ($bn)	-1.0	-0.7	-0.6	-0.5	-0.5
as a percentage of GDP	-4.4	-2.8	-2.2	-1.9	-1.7
Foreign investment ($m)	226.0	227.0	375.0	504.0	462.0
Outstanding foreign debt ($bn)	20.8	20.6	21.1	21.3	21.6
Debt service ($bn)	3.6	3.9	3.3	3.2	2.9
as a percentage of current income	53.6	44.7	38.5	34.8	34.3
of which interest charges ($bn)	1.4	1.5	1.4	1.3	1.3
as a percentage of GDP	6.0	5.8	5.1	4.7	4.5

*Forecast. Source: Ministry of Finance, Rabat.

Foreign investment: principal countries ($m)

	1988	1989	1990	1991	1992
France	37.1	53.5	69.9	111.8	118.6
Spain	4.9	13.7	18.6	28.1	95.0
US	3.8	10.3	5.6	10.6	34.4
Switzerland	5.1	12.5	11.9	37.4	32.3
Saudi Arabia	13.6	37.9	20.8	29.5	26.4
Others	64.3	98.1	99.8	157.6	197.3
Total	129.0	226.0	227.0	375.0	504.0

Source: Ministry of Finance Rabat

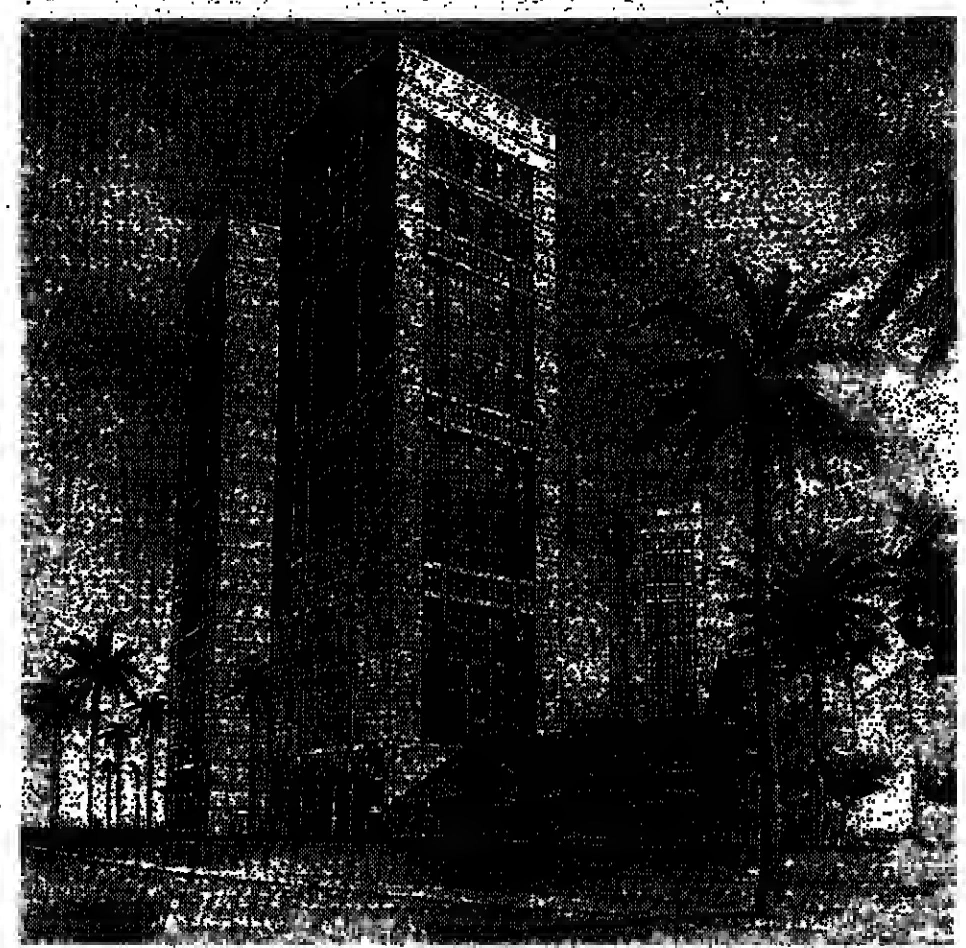
Privatisation

Company name	Sector	Status	Type	Amount	Buyer
Société des dérivés du sucre	sugar & yeast prod	done	sealed tender bid	Dh18.49m	Lesaffre
Compagnie marocaine de gestion des exploitations agricoles	agriculture	done	lease	Dh20m a year	several farmers
Société Chellah confections	textiles	done	private placement	Dh10m	Courtaulds
Compagnie de Transports du Maroc	transportation	done	public offering*	Dh110.57	Moroccan companies†
Hotel Tarik Tangier	tourism	done	sealed tender bid	Dh15.5m	Union Moroccan Hotels
Hotel les Amandiers	tourism	done	sealed tender bid	Dh5m	Floride
Cimenterie de l'Oriental	cement manuf	done	public offering*	Dh512m	Holderbank
Société petroles du Maghreb	gas distribution	done	sealed tender bid	Dh122.4m	Bouaida Gp
Hotel Basma Casablanca	tourism	done	sealed tender bid	Dh60m	Moroccan-Libyan consortium
Société nationale d'électrolyse et de pétrochimie	petrochemicals	done	sealed tender bid	Dh384m	Group Chaabi
Compagnie Marocaine des Hydrocarbures	gas distribution	ongoing	sealed tender bid	Dh100m	
Hotel Toubkal, Marrakesh	tourism	ongoing	sealed tender bid	Dh35m	
Hotel Volubilis, Fez	tourism	ongoing	sealed tender bid	Dh30m	
Hotel des Iles, Essaouira	tourism	ongoing	sealed tender bid	Dh20m	
Sococharbo	coal distribution	ongoing	sealed tender bid	Dh46.61m	
Sofac Credit	credit & leasing	ongoing	public offering*	Dh37.5m	

*Also sealed tender bid. †Banque Centrale Populaire, Interfina, Bank al Amal, Al Amana, Asma Invest, CDMR. Source: Upline Research, Casablanca

Francis Ghiles looks at the country's privatisation programme

Investors may be attracted as target looks set to be beaten



An artist's impression of the design for the Casablanca trade centre

FOR MANY international banks and investment funds, the acquisition by a French subsidiary of the Swiss Holderbank group of a 51 per cent stake in the CIOR state cement company last July marked a watershed in Morocco's ambitious privatisation programme.

Privatisation this year has so far brought US$250m worth of foreign investment into the country. By the end of the year, the authorities are confident that they will have overshot their initial target by 40 per cent.

Last year, external financing in the form of direct investment covered the whole of the $500m current account deficit, whereas foreign investment financed only 50 per cent and 23 per cent of the deficit respectively in 1992 and 1991.

Remittances from abroad could prove a significant source of capital for the privatisation programme

The privatisation programme is on target and, if successfully pursued – 112 companies worth an estimated $2bn are expected to be privatised by the end of 1995 – will play a key role in furthering the liberalisation of the Moroccan economy, modernising the country's industrial sector and strengthening the country's balance of trade. Its success so far is a tribute to Mr Moulay Zine Zahidi, the minister of industry, and Mr Hassan Amrani, his very energetic director of privatisation. The full backing of King Hassan, an essential precondition for any successful venture in Morocco, is assured.

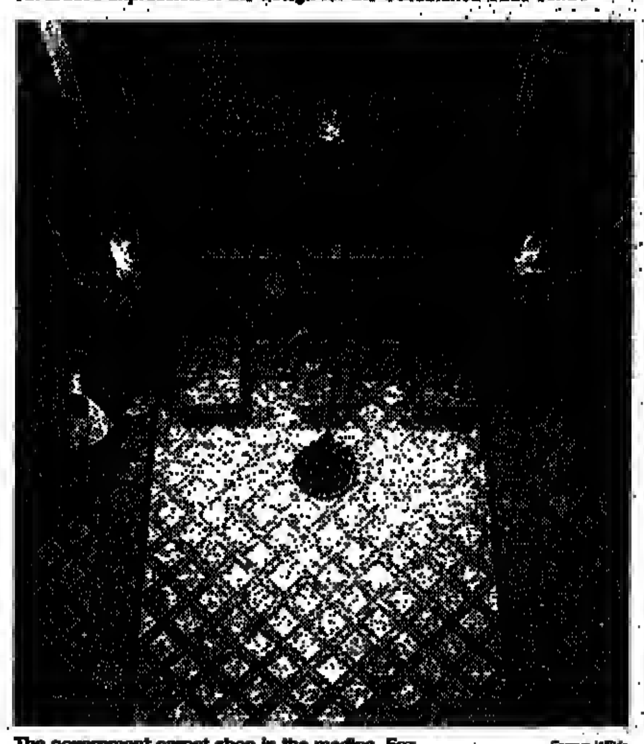
Citibank, which recently signed the first international commercial loan in 10 years for a Moroccan company – US$30m for the private ONA Group – pointed out in a recent analysis of the Moroccan economy that it felt "comfortable with the country's low level of commercial debt (19 per cent of total external debt), relatively high level of foreign reserves and the Moroccan administration's stated goals to pursue market orientated policies and to re-establish normal relationships with external creditors." The loan for ONA comes 10 years after Morocco was forced to reschedule its foreign debt.

A price tag of Dh1.2bn was put on CIOR whose sale dwarfed the privatisation of CTM, an international bus company which was valued at Dh320m and successfully privatised last June. Ten per cent of the shares were sold to the regional authorities in Oujda and Fez in north-eastern Morocco where the company's two plants are located. A further 30,000 shares were earmarked for employees. Some 40 per cent of CTM shares were issued on the stock exchange last June and the offer was oversubscribed.

The shares are currently trading at a 34 per cent premium to issue price. The most interesting feature of that sale was the keen interest shown by Moroccans living abroad who picked up one-third of the shares on offer. This interest underlines the importance of the $2bn that Moroccan immigrants remit home every year and which could prove a significant source of capital for the privatisation programme.

The bourse has, since its creation by the former French colonial ruler, played a very limited role in the economic life of the country. Apart from an odd flurry of activity in French times, the bourse has been effectively moribund by international standards for all its 65 years.

Moroccan savers traditionally invest in real estate or put their money on deposit. Businessmen go to their banks or tap private sources of finance, usually within the extended network of family companies and banks. Recently, treasury bills with a yield of 13 per cent tax free have been a magnet for individual investment.



The government carpet shop in the medina, Fez — Fergus Wilde

The lethargy of the bourse today does not, however, reflect a lack of demand but rather a combination of chronic shortage of supply, high cost of transaction and inadequate disclosure of company accounts. The privatisation process is thus expected to provide an impetus to the bourse and an opening to foreign institutional investors, for two reasons. One is that it will result in a large increase in liquidity. The second is that the Moroccan government has learnt from other countries' experience and knows that selling off a string of companies to multinational corporations may be the easy way out but it is a method which is both short-sighted and fraught with political risks.

Institutional investors are beginning to show interest in acquiring Moroccan shares

To ensure a privatisation programme is acceptable politically, shares in major companies must be widely distributed and a diversified body of domestic shareholders created. As a report by Blakeney Management, the investment adviser, notes: "Neither of these goals can be achieved without an efficient and liquid bourse as a medium of exchange."

Today, there are still only 69 stocks listed on the bourse. Many of these never trade. Many stocks go for weeks without trading and the last price may not reflect current market conditions. Twenty institutional investors, essentially banks and insurance companies constitute a comfortable and rather cosy club.

Three factors however are conspiring to bring changes. First of all the law passed last July on capital markets and mutual funds which will reduce transaction costs and encourage greater demand as the wealthier middle class bank depositors switch some of their funds. The second is the new-found interest in acquiring soma Moroccan shares shown by institutional investors such as the US money management fund Templeton. Salomon Brothers and the ONA Group are setting up a $200m private equity fund. Barings has recently underwriting 400,000 ONA shares for its institutional clients.

Privatisation is encouraging the emergence of investment funds such as Casablanca Finance, which is backed Banque Commerciala du Maroc. The country's leading private bank, its aim is to develop corporate and investment banking. Maroc Privatisation is backed by the Mutuelles du Mans insurance group and the Societe Marseillaise de Credit. Two much larger funds are the $24m Interfina fund, jointly owned by three Moroccan banks, the International Finance Corporation Spain's Banco Exterior, Credit Lyonnais Investissement and Proparco, the French equivalent of IFC. IFC, together with Siparex, a Lyon based venture capital group and the Moroccan commercial Wafa Bank, is in the process of setting up a $40m venture capital fund to help bring equity capital to medium-sized Moroccan companies.

Other interesting developments include the setting up by three young Moroccans of the Upline group, which aims to provide foreigners interested in Morocco with risk assessment studies and investment advisory services. L'Economiste, the first reliable economic and financial weekly, was launched two years ago, edited by the much respected Nadia Salah.

Owned by a small group of private investors, it sells 17,000 to 20,000 copies every week. Its senior editorial and management staff hold 44 per cent of the capital and its publication marks a break with the traditional type of Moroccan newspaper, which is highly politicised and usually sensational in style in a country where the hand of the censor remains heavy.

A further development should help boost Casablanca as a city of international trade and finance. The ONA Group is soon to start building a world trade centre whose facilities, it is hoped, will bring many Moroccan companies into closer touch with what is going on abroad. The two towers, whose architects are Ricardo Bofill and Elie Mouyal, should help embellish the sky line of a city which over the years has grown in rather disorderly fashion.

For the privatisation process to run smoothly and the opening of the Moroccan economy to be confirmed, one factor is still missing: transparency in business. As a recent World Bank summary on "Developing Private Industry in Morocco" underlines, a weak judicial process which is slow, opaque and unpredictable in enforcing rules and resolving disputes is, in the view of foreign companies "an important obstacle to investment."

Now the country must co-ordinate its agricultural reforms, writes **Francis Ghiles**

Quiet revolution is under way in farming

TEN years ago, 57 per cent of Morocco's population lived and worked on the land. That percentage has declined to 50 per cent and is set to continue its downward trend.

However, fewer than half of all the jobs in Morocco are on the land, as between one fifth and one quarter of all farmers are seriously under-employed. Overall, this sector contributes nearly 20 per cent of gross domestic product, yet the average income of those who till the land amounts to half that obtained in the towns.

Imports of foodstuffs account for 12 per cent of Morocco's trade deficit which in 1990-92 averaged Dh3bn a year. Yet exports of farm produce average 17 per cent of total exports and are growing, though in erratic fashion because very contrasted climatic conditions (the country has suffered badly from drought since 1991) makes the sector's contribution to national wealth volatile.

Many difficult problems confront the Moroccan countryside. It remains under-equipped in many ways. Few small farmers have electricity, let alone running water, and little has been done to improve communications with outlying areas. The land remains extremely fragmented, with the average farms no more than 4.8 hectares, the average age of farmers is over 50 and between two-thirds and three-quartere of the population remains illiterate.

Yet despite these difficulties, a quiet revolution is under way. Much of the credit for these changes rest with Mr Othman Demnati, who left the government earlier this year after a decade during which his reputation was steadily enhanced, an unusual outcome for someone occupying a ministerial portfolio in Morocco for so long.

A private landowner himself and a man of common sense and determination, Mr Demnati set about changing a policy which, in the 25 years after independence in 1957 had seen fit to make the farming sector pay for the development of industry. Luckily, such a policy was not pursued, as in many other Arab or African countries, with the kind of ideological drive displayed in neighbouring Algeria.

Harvesting spring melons in Haouz, near Marrakesh (left). Exports of these and other fruit have grown considerably, but there are still plenty of melons for sale in the Fez medina (right)

Furthermore, the monarch had no intention of impoverishing the countryside, from which he still draws considerable support. Throughout his reign, King Hassan has insisted that investment in water was essential.

It is thanks to this policy that 10 per cent of all usable land is irrigated. Production from such land today accounts for 45 per cent of the added value of farm production and 90 per cent of the value of exports.

In 1984, after three years of very severe drought, King Hassan decreed that farming would be exempt from taxes until the year 2000. Though it discrimioated betweeo rich and poor farmers, the decree was more than justified because the old agricultural tax yielded less than it cost to levy. A 50 per cent devaluation of the dirham over 10 years has provided a strong boost.

The results are remarkable. The diversity of Moroccan production has grown. Potatoes, courgettes, winter melons, strawberries, artichokes grown from seed, peas, chilli peppers, mange-tout and cut flowers have been added to the traditional list of tomatoes and citrus.

Even more remarkably, half of all exports now go to markets outside the European Community, notably to Canada and Scandinavia. Within the EC, Moroccan exporters have targeted the UK and Germany, markets where they were hardly present a decade ago, successfully. They are now taking their produce directly into Portsmouth through Geest, a large UK shipping, distribution and packaging company and into Bremen in north Germany. They are selling to eastern Europe, in exchange for hard cash.

Where exports have not been diversified, difficulties remain. Sixty-five per cent of all tomatoes are exported to France, where they risk being destroyed by irate French farmers. Spain and France are in direct competition with Morocco but the EC has proved, overall, a good market for those producers in Morocco who innovate and upgrade quality - io other words, are really professiooal.

Around Agadir on the Atlantic coast of southern Morocco, the carefully cultivated plain which boasts 300 days of sunshine a year looks from the air like parts of California. The Soussi berbers are proof that some Moroccans are more than able to hold their own in the modern world.

By introducing Israeli seeds, the authorities have in effect broken what was a virtual Dutch monopoly

Joint ventures with foreign partners, many of whom are actively relocating production, helps to explain this success. Near Agadir, one Swiss investor has built 400 greenhouses at a cost of between $40m and $50m since 1990. The Spanish seem to be everywhere, in Larache near Tangiers in the north and around Agadir.

British and French investors are present. In the vast irrigated Haouz project around Marrakesh, which boasts a computer-controlled water distribution system worthy of the best in the west. The Italians, the French and the Dutch are, growing roses on 120 hectares of land in joint ventures with Moroccans. Seventy per cent of the production is exported to Holland, Canada and the US.

Not only is production increasing and getting very diversified, but more added value is being put onto products in Morocco. French bulk importers of Moroccao potatoes are now happy to treat and repackage Moroccan potatoes in winter months because their profit margins are under pressure owing to the recession.

This wioter Morocco will start treating and packsging some of its own potatoes before exporting them. Chilli peppers produced around Larache are being turned into papriks before being exported.

Other factors have contributed to this revolution. One is that by introducing Israeli seeds to Morocco a few years ago, the authorities have in effect broken what was a virtual Dutch monopoly. Israeli irrigation techniques, often trading under Spanish conveuience names, are also openly pointed to in Marrakesh and around Agadir. In the Haouz project, farms of different sizes are integrated into the water distribution pattern, less well-off farmers working side by side with wealthier ones. Some can afford more sophisticated irrigation and fertilising methods than their neighbours, but the result appears to encourage change rather than envy.

On all these fronts, King Hassan's *domaines royaux* are said to offer models of what modern farming should be, but are virtually closed to outsiders. Observers agree that the economic reforms which the rescheduling of the country's debt forced on Morocco after 1983 have been the key to the current changes. Indeed, the abolition of the state export monopoly of fruit and vegetables and its replacement by private groups such as Atlas Fruit Board, which handles exports from the king's domains, have made all the difference.

Another debate is now opening up which centres on why Morocco should be self-sufficient in a number of foodstuffs such as sugar. Two-thirds of the sugar that Morocco consumes comes from the central Doukkala, Tadla and Gharb regions. But small local farmers are increasingly protesting against the local water boards that impose s pattern of water distributioo, which is only of use to those who grow sugar beet. So great is their obduracy that some farmers have taken to sinking small wells and storing the water, thus escaping the tyranny of the water boards.

Sugar beet is very labour-intensive and thus its cultivation reduces unemployment. Against that rather political logic, a new logic is increasingly rearing its head, that is the logic of the market and a real appreciation of the costs of production. And water is a key here as Morocco must manage its water resources with greater care. Needs are huge, while resources are increasingly expensive to mobilise, but years of drought will force, every few years, some water resources to be used for cereals rather than fruit aod vegetable crops.

Mr Demnati is believed to havs left his post because he could not get the government to agree to co-ordinate the different aspects of rural development - bringing electricity, schools, roads and running water to what remains a physically and tribally very fragmented countryside. He appears, most notably, to have run into difficulties with the powerful ministry of the interior.

Here, as in other sectors, the challenge Morocco faces in the next few years is to co-ordinate reforms which to date bave often been conducted sector by sector and avoid what a recent strategic study on "Rural Development" from the Ministry of Agriculture describes as "confrontation" between different ministries and economic interests. Such a change would hold the key to further rationalising and developing the farming wealth of Morocco.

The casbah (walled town) in Asilah, northern Morocco

Fergus Wilkie

Hotels are doing better, but the industry still has problems

How to tempt the tourist

TOURISTS ARE back in force and hotel managers are smiling again. The Iraqi invasion of Kuwait three years ago was catastrophic for the tourist sector, which remains Morocco's second largest hard currency earner, after remittances from Moroccan workers living in western Europe. Last year's net receipts from tourism, Dh11.7bn, were one-third up on 1991 and this year is expected to be even better.

France remains the leading source of visitors with more than 2m, followed by Germany with 1.7m visitors, and then Spain and Italy. The recovery in tourist numbers, notably in Marrakesh, has been helped by the war in former Yugoslavia, and attacks on tourists in Egypt and, more recently, Turkey. Casablanca has also seen a larger flow of visitors, both tourists and businessmen.

However, the gains may not be as great as they seem. Not only are European tourists spending little outside their hotels, but the price of many tours and hotel rooms for businessmen can easily be booked at discounts of 30 to 50 per cent.

In 1890, Lord Salisbury dismissed Morocco as an "enormous amount of sand" which he was happy to let the "Gallic cockerel" have. That remark is very unfair to the sheer beauty and variety of the lands ruled by the oldest monarchy in the Arab world.

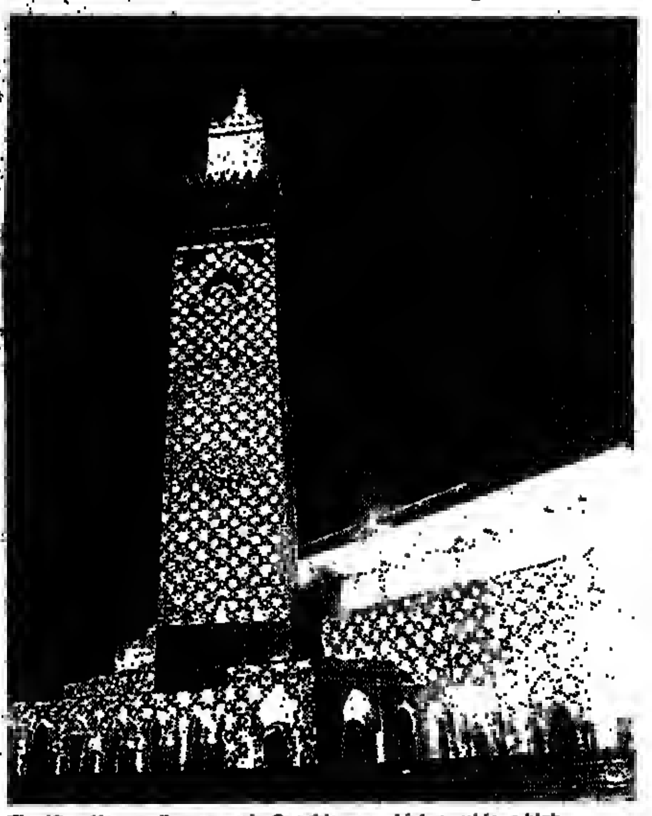
For those who seek sun and sea, good beaches abound along the Mediterranean and Atlantic coasts. Around Agadir, one may enjoy 300 days of sunshine a year. For those with more cultural pursuits, the old imperial cities of Fez and Marrakesh offer the easiest exposure to the "mysterious Orient". For the rapidly growing adventure holiday sector, walking and skiing in the High Atlas mountains and motoring to the spectacular Saharan valleys around Erfoud and Zagora offer endless scope.

Morocco has been spared the vandalising of its coastline so characteristic of parts of Greece and Spain, yet its lack of visitors remains a puzzle. Why does the country do no better than Tunisia, its small eastern neighbour, whose scenery and traditions, however pleasant, are no match for its own? Why does Morocco attract less than a fifth of those who visit the Canary Islands? The two main reasons are not too hard to find.

First of all, foreign visitors are liable to harassment by flocks of teenage touts and "guides" almost wherever they go. Secondly, there is often no obvious connection between the number of stars that a hotel boasts and the quality of service that the tourist should expect.

1. More discerning visitors are also disappointed by the absence of any serious policy to restore old buildings and cities and the lack of any cultural activities, except for the most jaded of folk dances, which are often a source of embarrassment rather than entertainment.

The authorities have often promised to crack down on unofficial guides and beggars and on unscrupulous taxi drivers, whose endless expectation of yet another tip helps to explain why, for so many European visitors, their first visit to Morocco is their last. Begging has begun to be discussed more openly in the media, notably on television. Nevertheless, in Marrakesh the situation is so bad that many Moroccan nationals refuse to visit the city.



The King Hassan II mosque in Casablanca, which combines high technology with the ornate Moslem tradition, is estimated to have cost $500m. It was inaugurated by the king at the end of August

Repression alone will not provide an answer as the intricate network of protection and corruption, built up over the years and taking in shop-owners, young Moroccan guides and the local police, makes the problem a complex one to unscramble. Income disparities in Morocco remain great and the European visitor is inevitably cast as the rich man, particularly in towns such as Marrakesh and Fes, where one fifth of the population remains unemployed. In Marrakesh one half of the population is believed to derive its living, directly or indirectly, from tourism. The last two years of drought have compounded difficulties as more people than usual flock from the countryside to the cities, desperately seeking some means of earning a living.

Many Moroccans suspect that the aggressive attitudes shown to foreign visitors are not susceptible of an easy cure. Morocco is paying for its high income disparities and poor education system, which leaves two-thirds of the population illiterate. The comparison with Tunisia is instructive - there harassment is simply not a problem.

2. The second reason is equally complex. Morocco has always prided itself on being an upmarket destination. Yet despite the "beautiful" people who travel to Marrakesh, most European visitors travel on package tours, like millions of others around the Mediterranean. Yet they are often billeted in four- or five-star hotels, which provide only what has been paid for, not that demanded by high-class establishments.

The authorities have tried to downgrade certain hotels, but nonetheless the visitor must be prepared for surprises. Some three-star hotels are excellent, but many five-star hotels are not worth the money.

It is damaging to the country's reputation among tourists when hotels such as the Hotel Palais Jamai, which dominates Fez and is meant for the seriously rich, provide indifferent service or when the Tour Hassan Hotel, the second best in the capital, Rabat, charges prices way above the service it offers. Its five-star de luxe status is viewed, in Rabat, as a bit of a joke.

The Tour Hassan is privately managed which shows that a privately-run hotel can be as badly run as a public sector one. In general, Morocco's hotels are burdened with a surfeit of stars; the older hotels suffer from lack of upkeep and many establishments have a gung-ho attitude towards their customers.

However, there are enough well-managed hotels to suggest that Moroccans are capable of maintaining high standards. The Royal Mansour in Casablanca, which is managed by Forte, and the Minzah in Tangiers, perhaps the most attractive hotel in Morocco, are two prime examples. Further down the scale, the Idou Anfa and Kandara hotels in Casablanca offer good service at a reasonable price.

More recently, a new chain called Moussafir started to open hotels that operated on a new formula. All are built at railway terminals and though boasting only three stars they are competitively priced, decorated in a simple style and provide good service. They enjoy a 75 per cent occupancy rate. Eleven more are due to open in the next few years.

The Moussafir chain is the brainchild of the largest private group in Morocco, ONA, which owns the hotels jointly with the Banque Commerciale du Maroc and the Moroccan state railway company ONCF. Unlike many hotels in Morocco, these hotels are staffed by professionally trained personnel.

ONA is also launching three large "integrated" tourist projects in Cabo Negro, near Tetouan, in the north, Casablanca and Marrakesh. All will have golf courses and with luck will provide an example to others.

The difficulty of imposing modern standards of management in many hotels stems from the fact that many private entrepreneurs who have made money in one sector like to invest their savings in bricks and mortar. They often run their hotels themselves, and do not allow the professionally trained managers they appoint any real say in decisions. They do not see fit to reinvest profits in the business and thus standards deteriorate over time. Too many hotels are built for essentially speculative reasons.

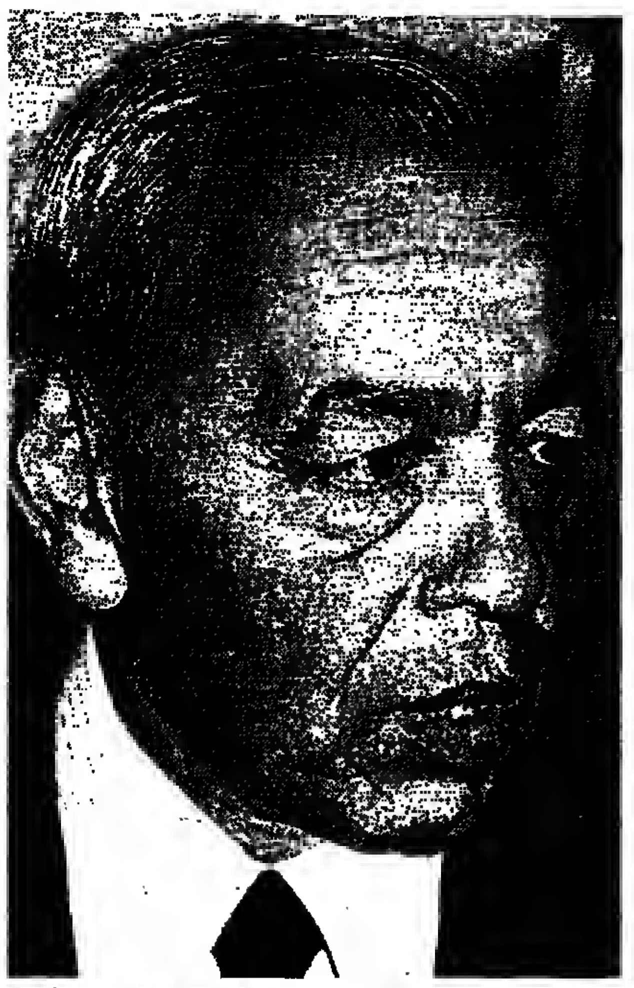
Another, historical, reason explains this lack of progress. Until the Treaty of Fez established the French and Spanish protectorates in 1912, Morocco was as closed and unknown to foreigners as Tibet. The country had been an independent kingdom since the arrival of Moulay Idriss, a grandson of the prophet Muhammed in the 8th century AD. This independence had been fiercely guarded until the the beginning of this century.

Being cut off from the outside world did, however, offer the great advantage of preserving, far more than elsewhere in North Africa, old traditions. The other side of the coin is that until recently, Morocco has not been as successful at marketing itself abroad as it should have been.

Nor has the number of over 84,000 beds increased: the figure is what it was six years ago. However, some Moroccan observers argue that the tourist industry's main task should be to raise its standards and to contain harassment.

That means more professional staff and a willingness on the part of the authorities to act rather than talk. Recent measures by Mr Hassan Abouyoub, minister of tourism, suggest he is fully aware of what is needed. If the problems which confront the sector are tackled with determination, the pickings, in terms of foreign income and new jobs - not to mention a kinder perception of Morocco abroad - will be rich indeed.

Francis Ghiles



King Hassan: peace-making role Alan Harper

Roger Matthews looks at the important role being played by King Hassan

Foreign policy stance seems vindicated

MOROCCAN foreign policy for the past three decades has not just been consistent, but also consistently right, according to officials in Rabat. The recent breakthrough in relations between the Palestine Liberation Organisation and Israel is, for them, just the latest vindication of a Moroccan stance taken and maintained whatever the external or domestic pressures.

Support for the western coalition against Iraq culminating in the Gulf war is cited as the best example of King Hassan flying in the face of domestic opinion, while the takeover of the Western Sahara from Spain in 1975 is seen as a lesson in how to defy international pressure.

For King Hassan there has been no historical contradiction in sending Moroccan troops to fight against Israel while also protecting his own Jewish population and arguing for a negotiated settlement to the Arab-Israel conflict. Meetings between Egyptians and Israelis in Morocco helped to prepare for President Anwar Sadat's critical visit to Jerusalem in January 1977, and few obstacles have been put in the way of Israelis of Moroccan descent who wish to return to their former homeland for holidays.

But, at the same time, officials in Rabat stress that Morocco stands four-square behind the aspirations of the Palestinian people to achieve self-determination, is proud to be the chairman of the al-Qods (Jerusalem) committee of the Islamic Conference Organisation, and is a fully committed member of the League of Arab States.

The visit by Mr Yitzhak Rabin, Israel's prime minister, to Rabat in September on his way home from his historic handshake in Washington with Mr Yassir Arafat, the PLO chairman, was an acknowledgment of King Hassan's peace-making role. But it went no further than that. Israel's hopes for a visit by King Hassan to Jerusalem and the establishment of diplomatic relations were not realised, and are unlikely to be until there is substantially greater progress in the peace process.

"Peace is not just a piece of paper. It is not just a matter of politics. Peace is about changing people's minds, about changing the way they look at issues. This is what we have been trying to do, and we shall keep on trying," says an official, who looks forward to early progress in Israel's talks with Syria in order to demonstrate that the peace process has become irreversible.

There is a feeling in official circles that Morocco's 15-year struggle to confirm its occupation of Western Sahara is grudgingly winning international acceptance

Less publicly, but with even greater private satisfaction, there is a growing sense in official circles that Morocco's 15-year military and diplomatic struggle to confirm its occupation of the Western Sahara is, however grudgingly, winning international acceptance.

Algeria's mounting domestic problems, the weakening of the nationalist Polisario Front, the preoccupation of the UN with other more pressing issues, and the US concern at the spread of Islamic radicalism, are combining to present a solution that will be acceptable to Morocco.

The key lies in who would be eligible to vote in a referendum on the territory's future: just the 74,000 people included in the 1974 Spanish census, as favoured by Polisario, or the additional 120,000 said by Morocco to be of Saharan parentage or origin.

Mr Boutros Boutros-Ghali, the UN secretary general, said during a visit to the region in June that he was pressing both sides to come to an agreement. Whatever the outcome of any compromise, or a decision to go ahead without Polisario agreement, the Moroccans will accept only a formula which they are confident would produce a satisfactory result.

The risk, of course, is that a frustrated Polisario, which is recognised by some 75 countries, could return to some form of armed struggle to continue pressing its case. Much would depend on the attitude of Algeria: there have been recent signs of a slight improvement in relations with Morocco.

There is little indication, however, that this will translate into a more effective Arab Maghreb Union, the organisation which brings together Morocco, Algeria, Libya, Tunisia and Mauritania. Formed in 1989, the AMU has agreed a number of conventions but none has been put into effect. Moroccan officials acknowledge that the organisation's chances of development remain modest. There was disagreement between the five partners over the Gulf war and this was heightened when the other members decided to follow the UN ruling on sanctions against Libya for its alleged role in the destruction of an airliner over Lockerbie in Scotland.

Morocco's main attention, however, is concentrated on its negotiations with the European Community. Earlier dreams of an eventual bid for membership, and before that an agreement which would permit almost free trade in agricultural produce, have reluctantly given way to a more sober assessment of what might be possible.

Whatever the final outcome on improved economic co-operation, EC officials see the biggest immediate gain for Morocco as political. "The big gain for Morocco is not in whatever is finally negotiated. The details matter less than the heightened political visibility that Morocco will enjoy as a result of closer links with the EC, and the impact this could have on inward investment, not just from EC members but also from other industrialised countries, such as Japan", comments one official.

Negotiations are certain to be tough over sensitive issues for southern European countries, such as the access allowed to Moroccan tomatoes, but diplomats in Rabat sense that King Hassan's desire to attach Morocco firmly to Europe will eventually prove decisive.

Scheherazade Daneshkhu on the likely impact of banking reforms

Sleepy giants face market

Moroccan banking is based, like much else in the country, on the French system. Until the Moroccanisation Law of 1973, which restricted foreign ownership, French banks dominated the sector.

Today, the French legacy is one of structure so that the bulk of the sector's assets are in the hands of only a small number of banks. Though there are 14 commercial banks, only three - the state-owned Banque Centrale Populaire, Banque Marocaine du Commerce Exterieur and the Banque Commercial du Maroc, the largest bank in the private sector - hold 60 per cent of the banking system's assets. This makes it hard for newcomers or the smaller banks to compete and is reflected in the weak penetration of the market by the seven smallest banks which hold less than 10 per cent of banking aggregates.

The system is highly regulated by the Bank al-Maghrib, the central bank, which still fixes the maximum lending rate. As a result of these controls, the banks have stuck to a traditional role of lending money and taking deposits. About half the deposits held in the commercial banking sector are in non-interest bearing accounts, so an easy way to make money has been to increase the branch network. Just under 30 per cent of deposits are held by Moroccans working abroad and Banque Populaire holds about 70 per cent of expatriate accounts.

Although the domestic banks have competed fiercely for market share, they are sometimes unkindly known as the sleepy giants. They are now being steered into a more competitive environment with the introduction of banking reforms and the passage of a banking law last year. The aim is to liberalise the banking system, which is regarded as a necessity if privatisation and competition are to take hold, which will inevitably result in a reduction of control exercised by the central bank.

Nearly two-thirds of the candidates for privatisation are from the banking and financial sector with the commercial banks representing 40 per cent. The single largest company due for privatisation is BCP, the country's largest bank.

The monetary authorities began liberalising in 1991 by lifting credit ceilings imposed

The system is highly regulated and the banks operate under one of the toughest lending limits in the world

by the central bank. Interest rates were also liberalised to the extent that banding was introduced and banks were free to set their interest rates within those bands.

However, the result was that the money supply increased by 20 per cent in 1991 with banks, anxious to increase their credit market share, increasing the growth of their loans by 35 per cent compared to the previous year. By the end of 1992, the commercial banks accounted for 60 per cent of credit compared to 53 per cent in 1990.

The strong explosion of credit prompted the central bank to intervene and it did so principally by raising the banks' reserve requirement to 25 per cent on demand deposits and by increasing the overnight borrowing rate. The measures have had the desired effect and the rate of growth of the money supply fell back to 9 per cent in 1992 while credits rose by 11.5 per cent.

The central bank eased the reserve requirement a year ago to 10 per cent (although banks had to place the 15 per cent balance in treasury bonds instead) and in June, the Ministry of Finance lowered the maximum lending rate by 1.5 percentage points to 14 per cent, to help stimulate the economy.

The banking law, which has not yet been codified, is intended to improve the supervision of banks by creating new regulatory bodies and a guarantee protection fund for depositors. The banking reforms are aimed at strengthening domestic banks and bringing them up to international standards. New capital adequacy ratios were introduced at the beginning of the year; banks must maintain 8 per cent of their capital against risk-adjusted assets. Banks must also make provisions against a non-performing loan after four months by making a 100 per cent provision against the loan unless there is a guarantee. The measure is being introduced gradually.

The banks also operate under one of the toughest legal lending limits in the world. The limit is 7 per cent of net capital funds to a single borrower compared to the usual limit of 25 per cent in other countries. While the limit used to apply to each subsidiary of a company, it is now restricted to the company as a whole.

The reforms are not popular with most of the banks, which claim they were imposed too suddenly. "The provision against non-performing loans is terrible for us," said one banker at one of the largest banks "because we have to increase our capital." However, the banks are now obliged to do their homework before they lend money by selecting businesses which are well-managed and by looking for profitable loans or those giving the best guarantees. While the reforms may seem a constraint to the bankers, some Moroccan companies have traditionally found it cheaper to finance themselves through debt, leading to an undesirable capital structure. The new reforms should make it cheaper for them to turn to equities for finance.

Despite the proliferation of measures, there is some anxiety that change is not taking place as quickly as it should. In his open letter on July 14 to Mr Muhammad Karim Lamrani, the prime minister, King Hassan urged a reformulation of financing policy to make access to international capital markets easier for local companies. He also called for the development of domestic capital markets through stock market reform and an increase in the range of financial instruments available. Companies need the infrastructure of suitable instruments, such as capital markets to gain access to foreign investment.

The International Finance Corporation, the World Bank affiliate devoted to private sector investment in the developing world, is planning to establish with the CPR group, the French investment bank, a Moroccan discount house with six Moroccan banks before the end of the year. It will give advice on the central problem of how to create greater liquidity on the debt securities market.

Morocco returned to the international capital markets in July through a $30m Euro-loan arranged by Citibank International for Omnium Nord Africain, the country's largest private company.

"One international banker says that while there is a lot of interest in the stock exchange from international institutions, progress has been slow which are highlighted by the lack of a developed capital market. "There is not enough synchronisation," he said. "While banks and corporations are allowed access to international capital markets and can borrow money overseas, there is, as yet, no mechanism by which foreign exchange exposure risk can be hedged." Morocco also lacks a money market and a secondary market for fixed income instruments.

The Casablanca Finance Group, established with backing from Paribas and others, says that there is a lot to do before it can establish itself as the country's first investment bank. It needs to convince investors to turn to the capital markets instead of banks, and also a developed brokerage system and buoyant stock exchange. It plans to launch the country's first open-ended mutual fund by the end of the year.

■ RELATIONS WITH SPAIN

Madrid investors pack flights to Rabat

SPANISH interest in Morocco may be measured by the fact that business class passengers often outnumber those travelling economy on Iberia's usually packed daily Madrid-Rabat flight.

Mr Alvaro Renfigo, the commercial attaché at the Spanish embassy in Rabat, knows all about the extra space that the airline has had to set aside for Morocco-bound business people. At least 1,000 Spanish executives have passed through his overstretched department so far this year and more than 400 have made appointments to see him.

Mr Renfigo says he faces an "avalanche" of potential Spanish investors in Morocco.

The Spanish press regularly reports travellers, in just as many numbers, moving in the opposite direction and under

New investment by Spain in Morocco now outstrips that by France. This year, Spain's quota of foreign trade will rise while France's will fall

very different conditions. Hardly a day goes by without a news story of illegal immigrants being arrested on arrival from Morocco aboard tiny fishing smacks. Frequently, the news is of bodies washed up on on a southern Spanish beach in the vicinity of Gibraltar.

The Mediterranean "wetback" saga has all the elements of a North-South drama, mixing exploitation and futility. The Madrid-Rabat flights, which are not nearly so fully reported, tell a tale of intriguing dollar-laden developments shaped by enterprise and focused on a clear future plan.

Over the past four years, direct Spanish investment in Morocco has moved between the $40m posted in 1990 to the $100m forecast for this year. Direct investment already topped the $100m mark in 1991, largely due to the outlay that year by the Instituto Nacional de Industria, Spain's public sector holding, in Morocco's Fosbucraa phosphate group and it will be back to the $100m level this year, having slipped to $40m again in 1992, thanks in part to a recent investment by Banco Central Hispano (BCH), Spain's largest private bank, in Banque Commerciale du Maroc.

These figures should be compared with those of the second half of the 1980s when direct Spanish investment in Morocco was in the $3m-$4m range. Spain's business invasion of Morocco is comparable only to the one it is waging in Portugal.

What is most revealing is that new investment by Spain in Morocco has now outstripped that by France. Whereas French finance entering Morocco is mostly aimed at consolidating existing positions, Spanish capital is fresh and acquisitive.

By Mr Renfigo's reckoning, the evidence of Spain's investment drive is to be found in more than 500 Moroccan companies which now have Spanish partners. Madrid's stamp on Morocco has been emphasised by the trickle-down effect of a 1991 bilateral friendship agreement that has lured major Spanish companies into big Moroccan civil engineering projects on the back of soft credit lines worth $70-80m a year.

Meanwhile, it is estimated that this year Spain's quota of Morocco's foreign trade will rise from 8 to 12 per cent while France's will fall from 23 to 21 per cent. Mr Alfonso de Pedro, the representative of the savings bank Caja de Madrid in Casablanca, echoes a widely shared opinion among the expatriate Spanish business community when he claims there is a specific local interest in "redressing the French weighting in the Moroccan economy".

In the main, Spanish business finds itself on familiar territory in Morocco. The present state of Morocco's development, as well as its regulatory environment, is not unlike that of Spain in the 1950s and 1960s. There are similarities in the bid to have foreign investment fuel a great leap forward.

Mr de Pedro is at present building up a consultancy and venture capital business on behalf of Caja de Madrid and in partnership with Banque Commerciale du Maroc. He has recently given the green light to five investment projects that deal mostly with hotel, hypermarket and office developments and he has a further 12 under study, encompassing potential businesses in the agriculture and textile sectors.

Spanish investment falls broadly under two groups. The first seeks a low cost production base for goods aimed at the Spanish and the European markets, while the second is looking for openings in the domestic Moroccan market.

The two investment models are present in most sectors. Spanish agricultural groups are developing strawberry plantations south of Larache which will get the first crops of the fruit across to Northern Europe before Christmas, two to three months ahead of the early strawberry harvests in southern Spain. Other groups, in contrast, have imported Spanish rice transformation technology to supply the Moroccan market with improved and competitive products.

In the textile sector the Madrid-based Cortefiel group has begun manufacturing in Morocco in order to supply its large retail network in Spain. Algodoneras San Antonio, the denim material producer, one of the prestige Spanish investments in Morocco, has however ignored the cheap labour possibilities and established a highly automated plant which services the local clothing industries.

The clearest indicator to date of the potential of Spanish investment in Morocco came in July when Banco Central Hispano invested $43.3m to raise its equity in Banque Commerciale du Maroc from 5 to 20 per cent and a further $6.9m to acquire 2.5 per cent of ONA, the Moroccan financial holding group that also owns 20 per cent of Banque Commerciale du Maroc.

The Spanish bank's new relationship with ONA, and its joint interest with the financial holding in Banque Commerciale du Maroc, will allow the strategic penetration of Morocco by the wide-ranging industrial interests that come under Central Hispano's umbrella. Some Central Hispano companies, such as the construction firm Dragados, are already well installed in Morocco but others, such as those in the energy, the agribusiness and the communications sectors will assuredly soon be booking their executives onto the Madrid-Rabat flight.

Tom Burns

Francis Ghiles finds that the Moroccan government is determined to keep the territory

Acts of faith in Western Sahara

ON THE edge of the small fishing port of Dakhla, 1,000 kilometres from Rabat, the Moroccan capital, a small block of flats stands empty. According to local officials, it awaits the return of the "lost brothers", those Saharaouis who, since Morocco took over the Western Sahara 18 years ago, chose to flee to camps in south-western Algeria and fight King Hassan's claim to the former Spanish colony.

The dispute is still far from being settled despite 10 years of intermittent fighting and a UN peace plan launched just over two years ago. Progress on the plan has been stalled by disagreement between the Moroccans and the Polisario Front, which has been fighting for an independent Western Sahara and over who would be entitled to vote on the future of the territory.

On the ground, however, everything has been done to ensure that the Moroccans stay. True figures of investment are not available but a visit to the capital of the territory, Laayoune, and to Dakhla, to the south, underlines the extent of Morocco's determination.

Laayoune, which in 1975 boasted a governor's residence, a traditional Spanish *parador* style hotel, a brothel and thousands of shacks for the natives – indeed it was more reminiscent of the wild west than anything else – has been turned into a bustling town of over 130,000 people, thronged at lunchtime and in the late afternoon with children going to and from school.

A new airport has been built, while a new and slightly vulgar hotel has been added to the *parador*, where the availability of peanut butter at breakfast is a sure way of detecting the Canadian and American members of the Minurso (United Nations Mission for Peace in Western Sahara), whose headquarters lie just below the *parador*.

UN marked aircraft at Laayoune and Dakhla airports also remind the visitor of the dispute, as does the fact that his passport is checked on arrival and departure for domestic flights.

Unofficial estimates of investment in roads, hospitals, schools, water ducts and other civilian projects are put at between Dh20bn and Dh30bn. Even these figures, however, are underestimates as soldiers are often used, at no cost to the state.

To those Saharaoui town dwellers who chose to remain and pay allegiance to the Moroccan crown were added the nomads who, in the late 1970s, were driven to the towns by the severe drought endured by the Sahel region of Africa. Despite Moroccan government efforts to help such people reconstitute their camel herds, the nomadic way of life is, here as elsewhere, a victim of modern political and social evolution.

The effort to spread literacy and ensure a minimum of health is impressive. A second hospital is about to open in Laayoune, and the province itself boasts a further four. Each has 220 beds. Four smaller health centres exist in Laayoune alone.

Medicine and all consultations and operations are free in the Western Sahara. Laayoune's hospitals appear well run, staffed by well-trained Saharaoui doctors and Moroccans from the north.

Dakhla feels like the back of beyond but boasts one asset that, were the status of the Western Sahara to be settled, could be of great importance: some of the world's richest fishing grounds

The 900 children who went to school in Spanish days have become 32,000 today. Laayoune boasts 27 primary schools, five lycees and a teachers' training college. The authorities say that 90 per cent of those in age to attend school in Laayoune do. Spanish has been forsaken as a foreign language to be replaced by French and, increasingly, English. No foreign teachers, however, have yet been allowed to practise in the territory.

Dakhla, which is now twinned with Rambouillet near Paris, has been virtually built from scratch. The pasha of Dakhla, the genial Si Mohamed Fadhel Semlali, points to a few remaining Spanish buildings, including an ugly 1950s style Catholic church still inhabited by an old Spaniard who has apparently decided he is going to die in the place, around which he said that about 90 Saharaoui families lived back in 1975. Dakhla was taken over by Mauritania then and handed over to Morocco in August 1978.

The town now has 30,000 inhabitants and sits near the tip of a 40-kilometre-long tongue of sand between the rolling Atlantic waves and a deep laguna. It feels like the back of beyond but boasts one asset which, were the status of the Western Sahara to be finally settled, could be of great importance: some of the richest fishing grounds in the world.

Indeed, the oddest sight in Dakhla is that of two Japanese visitors. Japanese, Korean, Russian and Spanish vessels fish offshore, some legally, others not. The prize here is squid, a great favourite with Asian consumers. In Dakhla itself a few small plants, such as Fishgod, set up by a Mr Salem Amghayer in 1989 operate, but the absence of a fully equipped port means that most of the fish or squid caught offshore is treated in Agadir or Tan Tan, much further north on the Moroccan coast, in the Canary Islands which lie offshore or on the ships themselves.

How much people who have traditionally been nomadic and turned their back on the sea can be turned into fishermen and businessmen remains to be proved.

Fishing could also provide a basis for tourist activity, though to date there is little of that other than passengers transiting through Laayoune to and from the Canary Islands and northern Morocco. The Dakhla laguna, its beaches and the opportunities for serious fishing might well attract an international hotel group. However, such an outcome appears unlikely so long as the dispute continues.

The authorities in Dakhla have built a four-star hotel but for some reason have done so in the middle of the town, away from the beach and in such a tight location that the compound boasts no garden, no large swimming pool and no seashore to step out to. No wonder they are finding it difficult to find a company willing to manage such an establishment which otherwise is soberly decorated and built to high standards.

Dakhla has also to do a lot to ensure running water in most homes. The town is lucky as it sits on a large underground aquifer of sweet water. On the other side of the laguna the king has set up a farm where fruit, including winter melons, and vegetables are grown using state-of-the-art irrigation technology. Much of the produce is exported to France.

The rich phosphate deposits at Bu Craa, 70 miles inland from Laayoune, are still exploited and the rock treated at a plant outside Laayoune before being exported but the depressed state of the market currently makes such wealth of little importance in providing new jobs.

The considerable resources that Morocco has poured into developing the Western Saharan provinces – whose population includes Saharaouis and many northern Moroccans who can earn tax-free salaries while working there – constitutes an act of faith. Traditional ties of allegiance between the Moroccan sultans and tribal chieftains have been buttressed by Rabat's continuous efforts to reinforce its physical presence and win the hearts and pockets of the Saharaouis. Whatever their innermost feelings might be, they have been offered more in terms of health, education and general well-being than many of their northern brethren.

The importance of the informal sector

Hub of undeclared activity

ALTHOUGH it has been suggested that production of goods and services in Morocco's traditionally flourishing informal sector may amount to 70 per cent of official gross domestic product, academics and businessmen believe that 30 per cent is a more realistic figure. No one, however, is in any doubt that this sector plays a key role, providing hundreds of thousands of jobs. The fact that it thrives helps to explain why, despite two years of drought and declining GDP, the kingdom has so far not witnessed any serious social disturbances.

Morocco's national accounts revalue the statistics they receive by a coefficient to take account of the informal sector: the value of manufacturing is thus raised by 14 per cent and that of the building sector by 15-20 per cent. This figure is reached by matching the number of permits to build with the consumption of cement.

In some sectors, the percentage of activity accounted for by the informal sector is more precisely measured – it accounts for 36 per cent of all clothes manufacturing, 30 per cent of all food processing and tobacco, 16 per cent of manufacturing of upholstery, 28 per cent of transport of goods, 25 per cent of hotel business and 19 per cent of all activities grouped until the broad name of "repairs". These estimates date from 1988 but the Direction de la Statistique in Rabat feels they hold true today.

Under the name "informal sector" may be found a multitude of sins. First and foremost is the US$2bn estimate of hashish exported every year to western Europe from the north-west Rif mountains around Tangiers and Tetuan. Not all that money is reinvested in the local economy, but the price of real estate and the impossibility of finding builders in Tangiers, Nador and the Spanish enclave of Ceuta are enough to convince any observer that a lot of money is washing around.

Money from this source must be added to that made from illegal imports through Ceuta and the other Spanish Mediterranean enclave of Melilla, which it partly finances. Alcohol and food these ports fetches one-third of the price it does in Casablanca. Moroccan buyers have access to all the latest hi-fi, computers and white goods they can afford on the free market in Casablanca – these goods are much cheaper in the north. In recent years a thriving market in cars stolen in Europe has developed, often brought in by Moroccan emigrés in France or Belgium who have been made redundant. The Fnideq market near Ceuta handles an estimated 40,000 such vehicles a year.

Another source of informal money is the selling of fish caught by Moroccan vessels to foreign fishermen on the high seas, in exchange for foreign currency. Precise figures are impossible to obtain, but observers believe that a few hundred million dollars would not overstate the volume of that particular trade.

Customs officials are unable to prevent the smuggling nor do their modest salaries – Dh1,800 a month with only a further Dh0.35 per extra hour of work – suggest they have the incentive to try. The figure of tonnage unloaded in several Moroccan ports is thus believed to underestimate the true weight and value of cargo.

An estimated 450,000 informal jobs exist in manufacturing, worth at least Dh30bn. Moroccan industrialists readily admit that a third of what they manufacture is not declared, pointing to the fact that tax inspectors are so harsh in their treatment that they encourage people to cheat. As in Tunisia, tax inspectors seem to consider private entrepreneurs a bunch of thieves. Another reason why industrialists and those in the service sector conceal their activities is the stringent nature of the labour laws, which make it difficult and expensive to fire employees.

The Tinmal mosque in the High Atlas mountains, the cradle of the Almohade dynasty

The reaction of local manufacturers to illegal imports varies. General Tire, for instance, is not best pleased to see Goodyear tyres smuggled in from the Canary Islands. Others are less worried because their own brand products manufactured in Spain are brought in.

One important factor in all this is that Moroccans often prefer imported products to locally manufactured ones, even if they have to pay more because they reckon they are getting better value for money. They are not always wrong. As for paying added value tax, wholesalers may have to, but the many small shops do not. In a country where two-thirds of the population is unable to read or write, imposing VAT across the board would not be practicable.

It is important to bear in mind that local family networks dominate much of Morocco's activity, even in large towns such as Casablanca. Many laws enacted by the French or the new state were quite inapplicable from the start. Today few Moroccan industrialists who are in dispute will go to court because the legal system is erratic, slow and often corrupt. Rather, they will resort to one of their peers who is respected both for his sense of fair play and knowledge of the matter which is in dispute.

The consequence of the past two years of drought are interesting in this respect. As farmers were forced to sell their cattle to make ends meet, the price of red meat was pushed down. But official slaughterhouses did not change their prices, thus forcing farmers into illegal slaughtering and selling. Butchers thus bought directly, bypassing the slaughterhouses. Such transactions are often agreed to by the powerful Mouktassib, the corporation which traditionally checks the honesty of transactions, the quality of goods, notably food, and their conformity with religious edicts.

Appointed directly by provincial governors, the Mouktassib, whose powers were reinforced by royal decree 10 years ago, appear to many Moroccans to be more attuned to the real needs of Moroccan society than many of the bureaucrats.

The informal sector is in many respects a safety valve for Moroccan society. It supplies flexible jobs at a fraction of the cost of the formal sector. Yet, one of the tests of the progress Morocco makes as it modernises its economy will be the authorities' capacity to ensure a more open and accountable system. That does not simply mean bringing the private sector to heel; it also means that the authorities will behave in a fairer and more open manner with all Moroccan citizens and companies.

Francis Ghiles

After a tough year, the government's passive attitude is under attack

Recession in Europe hits industry

AT THE implausibly named Bogart factory in the industrial zone just outside the centre of Casablanca, the Made in Morocco label is diligently stitched into children's Levi denim clothes destined for France. Mr Mohamed Tamer, the factory's owner, says that he has been fortunate in the current recessionary climate to have experienced stagnant rather than falling sales.

Morocco's industrialists have had a tough year. The country's gross domestic product fell in 1992 in real terms compared to the previous year, while total exports experienced a 9 per cent drop to Dh33.6bn ($4bn). The government expects exports to fall further in 1993 although gross domestic product should grow by 3 per cent. The second year of drought has taken its toll on production and on domestic purchasing power while exports have suffered because Europe, which is Morocco's main market, has been in recession.

Members of the Office of the Federation of Industry set out their grievances to the government, in the shape of Mr Abderazzak Mossadeq, secretary-general of the Ministry of Commerce, at a seminar in May.

The main complaints were the progressive removal of tariffs against imports, the high cost of energy (including periodic power cuts which are particularly disruptive to textile manufacturers) and high interest rates. Externally, the industry representatives were unhappy about the trend towards increasing protectionism in overseas markets, depressed worldwide demand and competition from smuggled goods.

While acknowledging the grievances of the industrialists, Mr Mossadeq inclines towards the opinion that there is not much that the government can do. He says that real rates of interest are about 10 per cent and the government itself is borrowing money from the World Bank at 10 per cent.

Though he admits that the cost of energy is high, that is a problem which everyone faces in Morocco, which does not have the fortune to be a part of the oil-rich Arab world.

With privatisation a buzzword, the state in Morocco is distancing itself from the industrial sector. Mr Mossadeq says that the government no longer has an industrial strategy because that implies *dirigisme*. Things have changed since the 1960s when it was forced to intervene because of the lack of a private sector.

"I was at an African ministers of industry meeting recently and everyone was talking about privatisation. But you need a private sector before you can privatise which is why the state first invested in industry and is now retreating," says Mr Mossadeq.

Although the government would like to see greater vertical integration, particularly in the textile and garments sector which is heavily dependent on the import of raw materials, Mr Mossadeq says that the government can only try to create the conditions in which industry might prosper by measures which include providing technical centres to improve the skill of the labour force.

Manufacturers are worried by increasing protectionism in Europe. Half of the goods manufactured in the textile industry are exported and 80 per cent of these exports go to France

The manufacturing sector is the second largest contributor to the country's gross domestic product, accounting for over 18 per cent in 1992 and overshadowed only by commerce with a contribution of 21.4 per cent to GDP.

The main industries are agro-industry (food-processing), textiles, chemicals, metallurgy/mechanics and electrical/electronics. Of these, the agro-industry and chemical industries contribute the most to industrial production, with a share of roughly 32 per cent each in 1991 but textiles and leather are the largest industrial export, accounting for 38 per cent of industrial exports in 1991.

With 180,000 employees, the textile and leather industry is also the largest industrial employer, accounting for one third of all those employed in industry.

The industry's labour costs are the lowest of any Mediterranean country with privileged access to the EC. It also has the advantage over its south-east Asian competitors of proximity to Europe, which means lower transportation costs.

Manufacturers, however, are worried by increasing protectionism in Europe since they are heavily dependent on the European market for exports. Some 50 per cent of goods manufactured in the textile industry is exported and 80 per cent of these exports are to France.

Mr Mohamed Lahlou, vice president of Manatex, one of the country's longest-established textile companies, and president of the Moroccan Association of Textile Industries, says that the industry has suffered as a result of the devaluation of some European currencies, notably the Spanish peseta, the Italian lira and sterling. The leather industry saw a 10 per cent fall in exports in 1992, with shoe sales performing particularly weakly with a drop of over 20 per cent.

Investment in the whole sector fell in 1992 for the second consecutive year, partly as a result of high interest rates, and Mr Lahlou has criticised the government for its passive attitude towards the problems facing the sector.

By contrast, the sector which enjoys the largest investment is the chemical and pharmaceutical industry which accounted for 38 per cent of all industrial investment in 1991. The sector includes the phosphate industry, controlled by the influential state monopoly, the Office Cherifien des Phosphates (OCP).

Phosphate exports dropped to Dh4.6bn last year from Dh5bn in 1991 and are expected to fall further to Dh3.7bn this year. The industry has not been aided by a drop in international prices from $42.5 a ton at the beginning of 1992 to $38 in May this year.

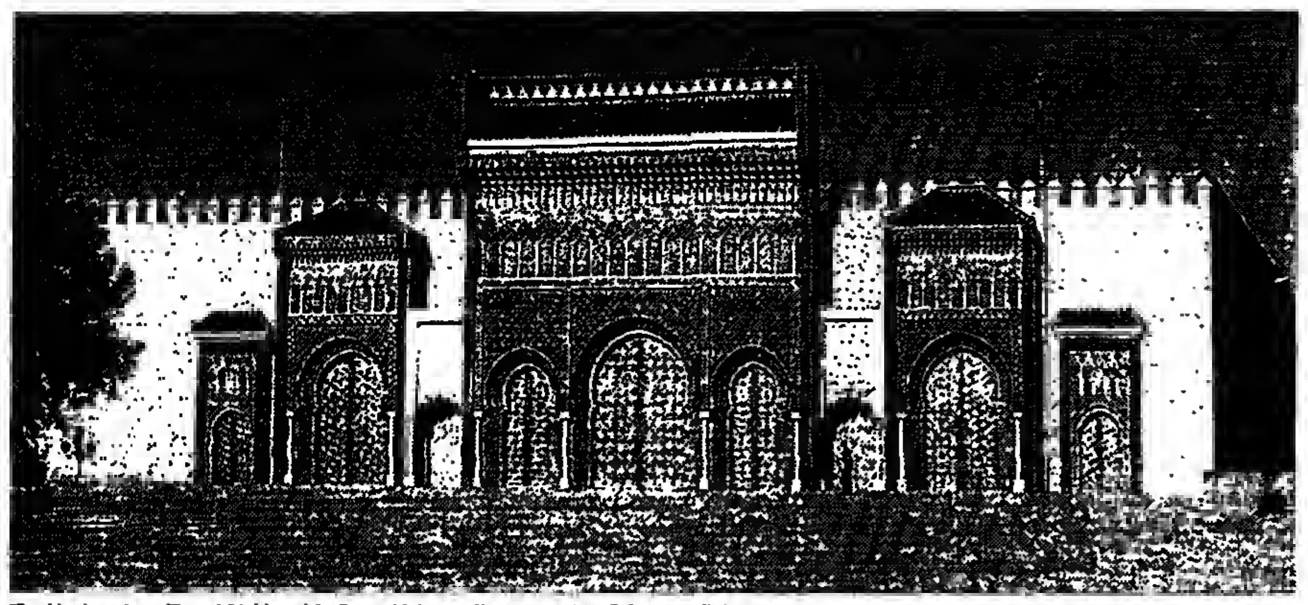
Despite a fall in the phosphate sector's share of total exports from 43 per cent in 1983 to an estimated 24 per cent in 1993, Morocco remains the largest exporter of phosphates in the world and the proprietor of the world's largest phosphate reserves.

The most optimistic industry is the metallurgy, mechanical, electrical and electronic sector which has seen production increase from Dh13.2bn in 1988 to Dh20.3bn in 1991, on the back of strong investment which has almost doubled over the same period while exports have risen almost threefold. The industry is hoping for further growth this year.

Although some industrialists are calling for a devaluation of the dirham to help exports and the reimposition of higher tariffs to protect domestic industries from outside competition, the government appears unlikely to adopt either measure.

Industry will have to weather the recession both at home and abroad and hope that the trend towards lower domestic interest rates will continue in order to aid both production and investment in the coming years.

Scheherazade Daneshkhu



The king's palace (Dar el-Makhzen) in Fez, which was the country's religious capital *Fergus Wille*

A guide for the businessman

Francis Ghiles on what to look out for on your visit, and what to avoid, how to get there, where to stay and what to eat

The country and the climate

MOROCCO lies on the north-west corner of Africa, three hours' flight from London. It is the oldest kingdom in the Moslem world, the present Alaoui dynasty having been in power for more than three centuries.

The climate varies considerably, from the northern coast, which is Mediterranean, to the old imperial city of Marrakesh at the foot of the High Atlas mountains, which is a favourite winter resort for Europeans and boasts dry, temperate winters and very hot summers.

Along the Atlantic coast, the temperature is usually mild and often very damp, especially at night and during the winter. Morocco has a great variety of mountainous ranges, the highest peak, Jebel Toubkal, rising to over 4,000 metres.

The region beyond Agadir is true desert climate, more pleasant to visit in winter and spring than summer. The resort of Agadir is open all year round and boasts 300 days of sunshine a year. Most of Morocco's 27m people are of Berber stock and speak Arabic. French is commonly spoken, though not in country areas.

Getting there

Most major western air companies fly to Morocco. Royal Air Maroc and GB Airways between them provide daily flights from the UK. Visas are not required for European Community citizens. The Dirham currency cannot be bought outside Morocco.

Business hours

Moroccan companies and administrations work a five-day week, from Monday to Friday, with a slightly longer lunch hour on Friday to allow those who wish to pray. During the Ramadan fast, which lasts one month, it is best to avoid travelling to Morocco. In winter, hours of business are 8am to noon and 2pm to 6pm: in summer (end of June to end of September) the hours are 8am to 4pm.

Car hire

Cars are easy to rent at major airports and hotels, but do not expect them to be in perfect condition. By European standards, car hire is expensive. Roads between major towns are good, though often narrow. A fast and regular rail service and a motorway now connect the political capital, Rabat, to the economic hub of Casablanca, 100 kilometres away.

Hotels

Hotels are easy to find and in general not expensive, especially if you get a discount from the official price. However, many four or five star hotels do not deserve their rating.

In Rabat the choice is between an overpriced Hyatt Regency and the Tour Hassan, whose five-star de luxe rating is a standard joke. In Casablanca, the Royal Mansour remains true to its grand style and excellent service, while the Sheraton and the Holiday Inn offer good value. The Idou Anfa and Kandara hotels provide good average comfort and service. On the corniche, just outside the city, the Riad Salam is an attractive hotel.

In Marrakesh, the world-famous Mamounia underwent a refurbishment 10 years ago, which was not a success, though its reception rooms, restaurant and garden remain very attractive. The four-star Hotel Nassim provides excellent service at competitive prices.

Taroudant, in the southern foothills of the Atlas, boasts the Gazelle d'Or, a perfect resting place for the seriously rich, set in gardens outside the small walled town. In Fez the Palais Jamai provides spectacular views of the old religious capital of Morocco, though the service it offers is unworthy of its five-star de luxe status. The Minzah in Tangiers remains, arguably, the most attractive hotel in Morocco.

Eating out

Moroccan cooking ranks, alongside Turkish food, as the most refined in the Mediterranean. Good French and Italian food is also available in the large cities. You can safely shop by the roadside and eat "keftas", skewers of meat sprinkled with saffron.

Casablanca boasts one outstanding French establishment, Ma Bretagne, on the corniche just outside the city. Other good French restaurants include Neroli (which has just been taken over by Pierre, as one of Casablanca's oldest French master cooks is known), Le Pretexte, Le Volubilis in the Royal Mansour Hotel and La Gondole in the Centre 2000, near the railway station. This establishment is run by Pierre Viaud, who left the Le Cabestan, where he was chef, to open his own restaurant. The food at Le Cabestan has not recovered. For Italian food, try Le Valentino in the Hyatt Regency Hotel or Le Fellini and for Moroccan food, Al Mounia. Le Pekin offers good Chinese food and Le Beyrouth excellent Lebanese fare.

In Rabat, L'Entrecote et le Vert Galand offer good French food. In Marrakesh, L'Orangerie offers fine French food, Villa Rosa good French and Italian fare; for traditional Moroccan food, the Yacout and Tobsil are best.

Arts and crafts

The variety of crafts in Morocco remains great. Carpets are plentiful and varied but the wool they are made from is not always of good quality. Good pottery from Fez, which is famed for its intricate bleu patterns, can be ordered from Hidaya Tazi in Casablanca (tel 445638); excellent pottery can also be found in the Potteries de Sale which are to be found in Rabat, at the foot of the old walled medina. The town of Safi also has very attractive wares.

State-run craft centres exist in most big towns but haggling in the souk, which is time-consuming, can be rewarding. The Habous district of Casablanca has a wealth of traditional jewellery and caftans. Casablanca also provides scope for getting good leather artefacts, which are cheaper if bought directly at the factory gate.

Morocco has many modern painters whose works are keenly sought in Morocco and abroad. Galleries such as Bab El Rouah in Rabat and Meltem in Casablanca are worth a visit. Unfortunately, no museum regularly displays such works, which can best be seen in the private galleries of the Banque Commerciale du Maroc or the Office Cherifien des Phosphates.

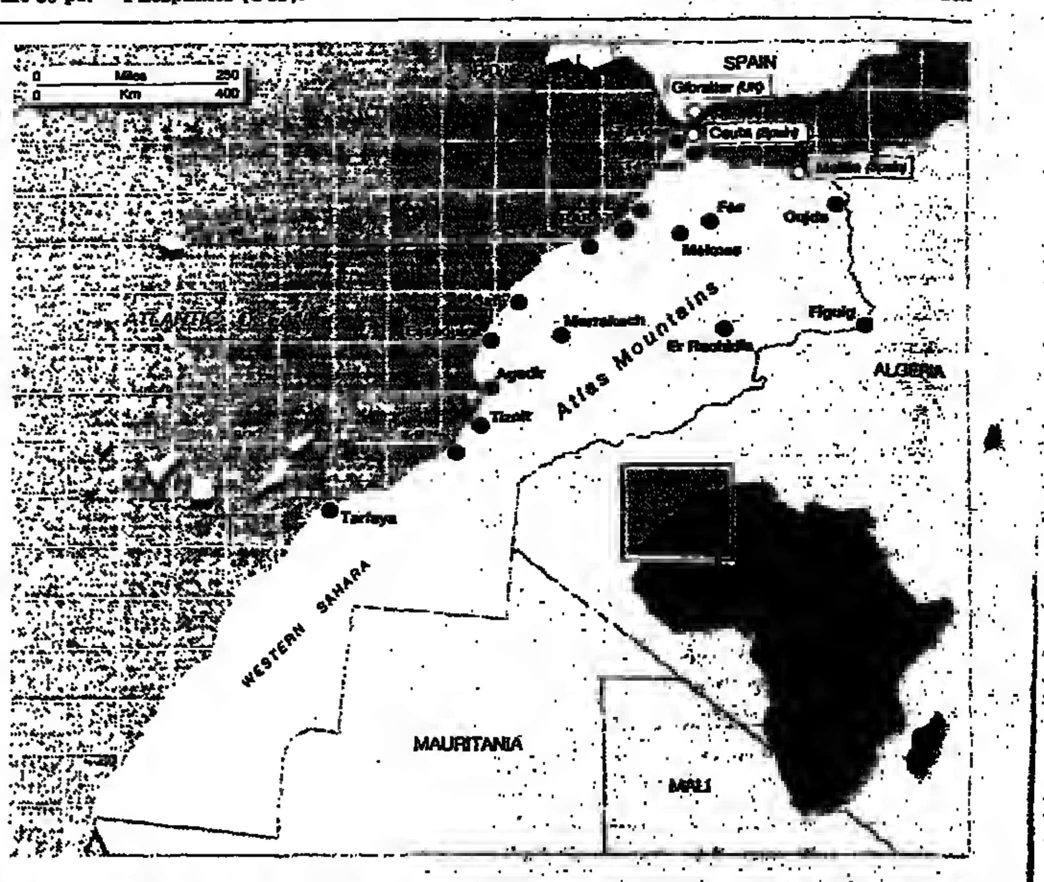
Economics

For economic information about Morocco, the best source is the weekly L'Economiste, whose reports and analysis are very reliable. The Centre Marocain de Conjoncture produces regular studies on the state of the economy but they are rather too academic for the average businessman. New financial services such as Upline (tel 985855) or the Casablanca Finance Group (tel 441244), both in Casablanca, are reliable and good.

Books to read

John Waterbury's *Commander of the Faithful*, unfortunately out of print remains as good a guide as any to the monarchical system of Morocco. Wyndham Lewis's *Travel in Barbary* is a wonderfully evocative description of the Berber society of southern Morocco.

Remy Leveau's *Le Fellah Marocain, Défenseur du Trône* provides a good political introduction to the kingdom while Bruno Etienne's *Les Arcanes du Sultanat* recently published by the French cultural review Autrement (September 1990), is a pointed analysis of how King Hassan exercises his considerable powers.



DUBAI

Wednesday November 3 1993

Dubai's oil and business acumen have made it the second wealthiest state in the United Arab Emirates. However, as the economic climate becomes more complex, it is seeking new strategies to maintain its prosperity, as described in this survey written by **Robin Allen**

Mercantile capital of the Gulf

TO all appearances, Dubai is continuing to re-inforce its position as the mercantile capital of the Gulf. Second richest of the seven states which form the United Arab Emirates, over the years Dubai has earned for itself the *sobriquet Dubai Inc.* by virtue of its business acumen and the shrewd instinct, not only of its former celebrated ruler, Sheikh Rashid, but also of the merchant community as a whole.

It has also benefited – and continues to benefit – from a healthy surplus of capital from oil revenues, which has enabled the government, the ruling Al Maktoum family, to build the best infrastructure that money can buy.

Under Sheikh Rashid, Dubai has also equipped itself with industrial facilities on a par with the best in the world, a tradition continued by his sons with the creation of a Free Zone Authority and industrial area at Jebel Ali and the establishment on a commercial basis of Dubai's own airline.

The combination of capital wealth, personal commitment, and sheer hard work have helped to provide Dubai with a freedom to make its own decisions within the federation in its formative years, and have subsequently enabled it to keep going through two regional wars and the collapse of oil prices in the mid-eighties.

These conditions, not least the availability of continuing reserves of capital, are changing, however. To compensate, the government is trying to enlarge and improve on developments that have already taken place. The government's Economic Department, set up in July 1992, but only really in operation since June this year, has the job of overseeing the management of some of the government's onshore industries, of representing Dubai at federal meetings where legislation is drafted, and, of most immediate importance to the business community and potential investors, of streamlining the trade licence registration process, a source of considerable ambiguity and frustration in recent years.

In addition, the government has been spending a lot of money to improve the road network and other infrastructure; and its commerce and tourism promotion board is waging an effective campaign to attract more investors and tourists, the overall aim being to create an economy based on self-sustaining tourist and regional services industries, for an era when the cushion of wealth from oil revenues is no longer there.

On the investment front, it is intended that the Economic Department should develop into a one-stop shop where it will be possible to establish a limited liability company. Many businessmen still complain, however, about the amount of time-consuming paperwork, and the cost – Arabic translations at Dh100 ($27) a page – when it comes to the enactment of a coherent legal code.

Taken together, these measures should ensure that Dubai retains its prominence, if not its pre-eminence, as the mercantile capital of the Gulf. But there are several conditions to be fulfilled and a number of potential weaknesses which may make it more difficult to keep the strategy on course.

These include:

- continued regional political stability;
- the Economic Department's ability to live up to the demands made on it;
- the progressive implementation of a coherent and effective business legal framework;
- the peaceful development of the federation and of Dubai's role within it,
- a guarantee of continuing abundant sources of energy at affordable prices.

The successful resolution of the 1990-91 Gulf crisis removed doubts in investors' minds over whether the west would intervene in a crisis, and instilled a degree of confidence about the Gulf which had been previously lacking.

Iran's occupation of, and claims on, three UAE islands near the strait of Hormuz, has not so far led to anything more than curt exchanges of diplomatic notes, and resolutions from foreign ministers of the six-member Gulf Co-operation Council. Iran's apparent decision to invest in expensive weaponry at a time when it is thought least able to afford it, and for motives which are not clear, has certainly caused concern – but so far nothing more.

These problems are so sensitive that in Dubai senior officials refuse to discuss them. This is partly in deference to Abu Dhabi and the federation. Foreign affairs comes within the jurisdiction of the presidency, that is to say, Sheikh Zayed in Abu Dhabi, where it is reported there is a real fear of Iran trying to extend its physical control over other Arab Gulf islands.

Dubai is thought to share this apprehension, but not to the same degree. The trading links between Dubai and Iran are historically very strong, and the relationship deeper and more subtle than that between Abu Dhabi and Iran.

Other matters of foreign policy, including the US policy of "dual containment" of Iraq and Iran, are not ones which Sheikh Mohammad Bin Rashid, the defence minister, is prepared to discuss. But it is known that as a result of the Gulf war, he is a leading proponent of a much greater depth of co-operation between member countries of the GCC, and continuing links with the US and the west. The UAE and particularly its president Sheikh Zayed, was one of the staunchest supporters of the US-led coalition.

The outline peace agreement between Israel and the Palestine Liberation Organisation falls into the same category.

Critics of the modern form of tribal leadership, of which there are a few in Dubai, contend that the system of government by word-of-mouth and by telephone, is inadequate for the administration of a modern state. There is no legislative assembly or consultative council within Dubai – where the majlis, or open session held by the sheikhs, acts as an alternative forum for discussion, and for petitions to be presented. To be present at one such majlis is to see tribal democracy in action at its most basic level.

On the other hand even critics acknowledge that in a state as small as Dubai, there is enough delegation of authority to individuals and institutions for the state to function sufficiently well. By contrast with some of its neighbours, Dubai's public administration is smooth and efficient, and better than some European countries.

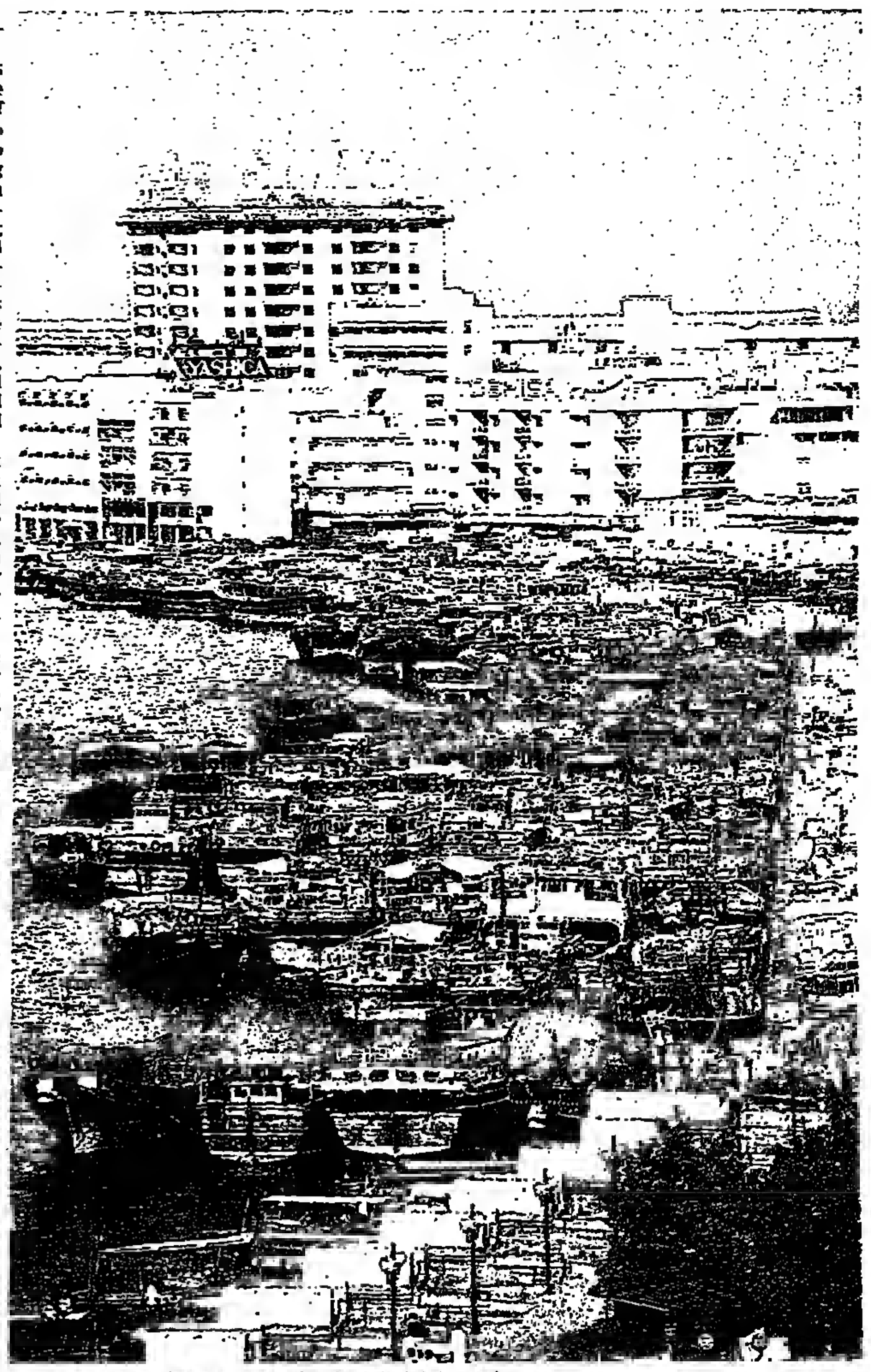
Where tribal leadership falls short – and Dubai is only one small example in the whole of Arabia – is in its inability to decentralise authority, and to make the most of existing opportunities. Industries such as Dubal, a state-owned competitor on world markets; Dubai Drydocks, a successful and apparently profitable alternative to Singapore's ship-repair facilities; and Emirates Air, a fast-growing airline, are all in need of capital that public shareholders could provide, but have never even published a balance sheet. They should have been partly privatised long ago.

The UAE as a whole does not yet have a formal stock exchange. Private capital, and not least that belonging to the ruling families themselves, could be harnessed to gel with Dubai's sizeable and hugely wealthy business community to create a state of shareholders.

There is indeed scope for the for the UAE – which last year saw such an outflow of private capital that it ran a balance of payments deficit for the first time since federation – to work with the GCC countries as a whole, to create a GCC-wide capital markets.

For day-to-day government, Dubai's ruling family is more than adequate. It is respected and the rulers have their their ear to the ground. There are no Islamic pressures of any significance, at least for the time being. And when it comes to relations with Abu Dhabi and the federal authorities, natural evolution suggests that Dubai's autonomy will continue to lessen by degree.

The key long-term challenge for the leadership may be to instill in today's youth the drive and commitment that has characterised the emirate for the past 30 years. Several statements from anxious federal officials suggest that the next generation is not being sufficiently prepared for the day when the Dubai government will not be able to support so many subsidies, or create so many opportunities by a simple expenditure of capital.



Attractions for tourists and a haven for dhows in Dubai's creek

Picture: Robert Harding Picture Library

THE ECONOMY

New strategy for a different era

AS reflected in trade statistics, Dubai's economy has rarely been so buoyant. The timing could not be better to implement, through the recently-created Economic Department, a strategy to take the emirate into the era – still a long way off – when a self-sustaining economic base will mean Dubai is no longer dependent on oil revenues.

If government aspirations are met, the self-sustaining economic base will rest on three factors: traditional trade; the leisure and business tourist industry; and the continuing growth in the number of companies choosing Dubai as a regional services and light industries centre.

But four essentials must be met if these ambitions are to be realised. First, there has to be regional political stability; secondly, there must exist a coherent and effective legal framework within which all kinds of business can flourish; thirdly, Dubai must have abundant energy supplies at affordable rates; and lastly it must rest comfortably within the federation even if it retains degrees of autonomy on different issues.

For the past five years, Dubai's non-oil trade – the traditional core of its economy – has been growing at an annual rate of more than 20 per cent, official statistics show. Dubai caters for 70 per cent of the UAE's total trade. Just over half is with Asian countries; almost 30 per cent with Europe. For 1992 alone, imports totalled almost Dh60bn and re-exports almost Dh9bn.

The main entry and re-export points are Port Rashid, a large and extremely efficient container port with an average re-export turnaround time of 24 hours; Jebel Ali, the largest man-made container harbour in the world; the dhow traffic on Dubai's creek, the waterway on which it built its reputation as an entrepot; and the air-cargo terminal which has a capacity at present of 250,000 tonnes a year. Greatly expanded over the years and always being improved, they allow Dubai's life-blood to flow.

The funds generated by this trade are several times greater – Dh70bn compared with some Dh10bn – than revenue from crude oil and gas. "The funds for all this activity are entirely generated in the market," says Mr Bill Duff, chief financial expert at Dubai's Central Accounts Office. "They are not subsidised by the government whose oil revenues have to be concentrated on improving the infrastructure to cope with the increase in load."

Political stability, of the kind that has existed since the end of the Gulf war, is vital

Dubai's re-exports are greatly helped by periodic problems in Iran such as the imposition of quotas which limit imports. These may make it more difficult for other traders, but Dubai is near enough and with sufficient experience to give its Iranian community the necessary flexibility to take advantage of them. The Iranians themselves realise Dubai's special role, for when they stipulated that all imports to Tehran and Bandar Abbas should go direct rather than through middle men, Dubai was exempted.

But all this trade, as Mr Duff points out, is in cash investments "which you have to try to stabilise". So to a very large extent is tourism and the investments made by foreign companies which choose Dubai as the preferred centre from which to service the wider Middle East and West Asia, the Indian sub-continent.

Continuing political stability in the region, of the kind that has existed since the end of the Gulf war, is therefore vital while Dubai finds ways to attract more – and more valuable – investments.

The advent into Dubai of so many companies, particularly in the past 2½ years, has in turn unleashed a property boom in both house construction and rentals. Rentals, some businessmen insist, have risen more sharply than the actual increase in business turnover and, more importantly, profits.

These, however, are cyclical factors. Of greater concern in the longer term is that these markets – houses, service offices, commerce – could decline as rapidly as they came if the right conditions are not established within Dubai to tempt more fixed investment.

The government needs time to expand the infrastructure and the private sector needs time to consolidate the commercial gains of the past few years. Both of these factors are in play partly because the prolonged recession in the west has encouraged more and more companies to venture into the expanding Gulf market. Hence the phenomenal interest in regional exhibitions, including the forthcoming Air Exhibition.

One answer to Dubai's (and the UAE's) need for more fixed investment in non-oil industries is to acquire the high technology industries that come with offset programmes. But as one visiting representative, in Dubai to discuss offset proposals, said: "High technology industries are not like an invention. You cannot create one and then leave it. You need the talent on-the-spot to run it and develop it further".

A source close to the government added: "Technology transfer and diversification are all fashionable to talk about, but they have to be viable before they set up here because they cannot rely on government subsidies. Common sense and business acumen are Dubai's greatest assets, and these are what we should build on."

Mr Alabbar has earned the title of 'the government's economic troubleshooter'

Overall strategy for Dubai's economic development for the next decade is with the recently-formed Dubai Government Economic Department and Mr Mohamed Alabbar, its director-general. Although best known to Dubai's business community as the man expected to streamline the process of issuing business and office licences (and the principal target of their complaints when expectations are not immediately met), Mr Alabbar has an awesome task dealing with many other issues, for which he has earned the title of "the government's economic troubleshooter."

He is credited with having turned round the government's property and other investments in Singapore which it inherited from the Dubai entrepreneur Mr Abdul Wahab Galadari; and more recently with having rationalised the structure at Dubai Aluminium Company, which he continues to direct. But the Economic Department under his direction also has to oversee other government onshore investments; and represent Dubai at meetings of federal committees where all types of draft legislation are discussed, including the extent to which individual emirates retain degrees of autonomy.

However the core of his responsibilities lies with trying to streamline the licensing process for companies wanting to register or to renew registration. His goal, he says, is to provide companies with their registration certificates within 48 hours of application and requests for information by fax on demand. This is ambitious to say the least given the amount and complexity of forms required, and the need for his staff to undergo "customer service training." But by and large the business community acknowledges that progress has been made.

Mr Alabbar says that a lot of the work that is done is not visible to the business community. His department is involved in continuous federal committee sessions and it is in these where Dubai's voice is heard.

He is quick to point out that many of those who sit on federal committees have been at school together, and that Dubai's relations with other emirates at federal level are fundamental to its economic future.

Dubai Ports Authority was created in 1991 and by the year-end container traffic had increased 37 per cent. Last year, it was up a further 48 per cent

HEAVY INDUSTRY

Quality producers

DUBAI'S manufacturing industries have developed on the back of the finest sea and air communications in the Middle East. Dubai Aluminium (Dubal) and industries located in the Jebel Ali Free Zone depend on the ports. These are Dubai's lifeline. The tanker traffic and the commercial shipping in turn create the business for Dubai Drydocks.

Manufacturing industries located in Dubai represent only about 25 per cent of the country's non-oil manufacturing base, but what is lacking in quantity is to a large extent made up in quality. Dubal; Dubai Cable Company, a 60-40 joint venture between the government and the BICC group of the UK which operates and manages the company; and Dubai Drydocks are all industry leaders.

In little more than two decades Dubai has become one of the top 15 shipping centres in the world container port traffic league and the redistribution hub of the Middle East.

In May 1991, the two ports of Mina Rashid and Jebel Ali, 35 kilometres south of Dubai city, were merged to create Dubai Ports Authority (DPA), headed by Mr Sultan Bin Sulayem who is also chairman of the Jebel Ali Free Zone Authority (Jafza). By the end of that year, container traffic had increased 37 per cent to top 1m TEUs (twenty foot equivalent units), for the first time. Last year, container traffic had increased by a further 48 per cent, and this year throughput is likely to reach 1.6m TEUs.

Last year, DPA invested $100m to expand Jebel Ali's container terminal and buy six new container cranes, and a further two are on order for both Jebel Ali and Mina Rashid. The two ports together have 102 deepwater berths.

The cargo village at Dubai's international airport completed its first full year of operations in July 1992 and, working in tandem with DPA, handled more than 12m kilos of sea-air cargo. DPA claims that a Japanese manufacturer using sea-air via DPA to reach Germany can save one third off all-sea transport and more than 40 per cent off all-air costs.

Dubai Aluminium's production last year exceeded capacity for the first time since completion of the smelter development programme in January 1991. Hot metal production reached 244,605 tonnes, an increase of 5,575 tonnes on 1991 production. The aluminium industry as a whole suffered from the effects of the recession in Organisation for Economic Co-operation and Development countries. Despite the tight market, Dubal sold more than 250,000 tonnes of finished metal to 21 countries, with Japan continuing to account for the largest percentage of sales.

Dubal is now applying for accreditation to the International Standards Organisation under ISO 9002 for coverage of the entire smelter operation, in readiness for exporting to the EC.

Last July, Dubai Cable Company became the first cable factory in the Middle East to be awarded the ISO 9002 standard, widely used throughout the US, Europe and Japan to ensure manufactured products meet specific high quality standards. The European Community is planning to ensure that all cable imports into Europe meet these standards.

The company says it achieved record sales in 1992 with a 12 per cent increase over 1991. It successfully broke into the Asian market with a £10m contract from Singapore's Public Utilities Board and last August won another supply contract for low voltage cables from Hong Kong's China Light & Power Company. Mr Neil Chesworth, general manager for sales and marketing, says products can be made in Dubai which are as good as anywhere. The ingredients for success in Ducab's case are a growing market such as the Middle East, a joint venture partner such as the Dubai government which leaves BICC to run the company, and BICC's know-how.

The same "hands-off" policy adopted by the government has also been a winning formula in the case of Dubai Drydocks, the $400m ship repair complex opened in 1979. It has three graving docks of 350,000dwt, 500,000dwt, and 1,000,000dwt, and for years was regarded as a white elephant because by the time it opened the tanker market involving very large vessels was undergoing one of its very depressed periods. In the 10 years it has been operating, however, it has made a profit every year, according to Mr Ernie Ware, chief executive.

During the Iran-Iraq war, a lot of vessels with minor damage were repaired in Dubai, and once the war was over in August 1988, Dubai Drydocks began seriously the job of building up industries related to the drydocks themselves. It has attracted several contractors into the industrial estate adjacent to the shipyard.

The number of vessels repaired between March 1992 and February 1993 was 103 with a tonnage of more than 20m. Since the beginning of March this year, 103 vessels have been in for repair with a total tonnage of nearly 16m.

Jebel Ali Free Zone has witnessed the same kind of success. The concept and the scale of Dubai's ambition when the Free Zone Authority was established in February 1985 was greeted with the same kind of scepticism as Dubai Drydocks. But despite the Iran-Iraq war and the 1991 Gulf war – and fears for the region's stability which curbed investor interest – Jebel Ali Free Zone is now benefiting from the scale of the original concept.

It offers a long list of very attractive inducements to potential investors, including a lack of red tape which is a businessman's dream compared with the red tape in most neighbouring countries, and it has been vigorous in promoting itself. By mid-October there were more then 560 companies with licences to operate in the Free Zone. They came from 58 countries and represented an investment of more than $1bn. Sultan Bin Sulayem, Jafza chairman, said "mega-companies" had been showing considerable interest in applying for special offshore licences.

He says European companies are beginning to see the wisdom of manufacturing products for sale in Europe, in Dubai rather than in Asia.

There are still obstacles to attracting the kind of manufacturing companies the Free Zone wants. The first has been the conspicuous reluctance of neighbouring countries which are prime re-export targets, particularly Saudi Arabia, to accept that goods made in the free zone with a minimum 40 per cent value-added content by a company owned at least 51 per cent by a GCC national should pass as a locally-produced item, and therefore be liable to a similar low rate of import duty as that payable by any other GCC onshore industry. According to Mr Bin Sulayem, however, the problem is being resolved.

But the bureaucratic hurdles have been formidable. First, the company concerned has to get a certificate of origin from the UAE Finance and Industry Ministry. Next, the paperwork has to pass through not only the Dubai chamber of commerce – a relatively very straightforward process – but also the GCC secretariat in Riyadh and then it must be approved by the Saudi customs.

Meanwhile, because Dubai sticks to its belief in a free market and refuses to protect its industries, the manufacturer has to compete with manufactured goods from neighbouring countries, including Saudi Arabia, which benefit from high domestic tariffs, cost more to produce but still sell at a profit in their own domestic markets, which enable their owners to dump them in the UAE. The cost disadvantages, frustrations and delays have deterred many a would-be investor.

The other cloud on the horizon is the nagging possibility that Dubai in general could not support a major industrial investment because it could not satisfy long-term power needs. Talks are reported to have taken place, however, with the neighbouring emirate of Sharjah, with Abu Dhabi, Qatar, and Iran.

DEFENCE

Facing up to realities

AFTER almost 22 years of federation, Dubai's defence is inextricably bound up not only with that of the United Arab Emirates, but in a wider sense with that of the Gulf Co-operation Council (GCC) too. So defence forces stationed in Dubai are referred to, by virtue of their geographical location at the centre of the federation, as Central Military Command (CMC), even though direct authority over CMC is via a chain of command containing only names from Dubai's ruling family, the Al Maktoum.

CMC's ground forces consist of as many as 15,000 men, out of a total UAE federal army of 50,000, according to the London-based International Institute for Strategic Studies. Up to 80 per cent of CMC is comprised of Omanis from the Batinah coast in the northern part of the country, and the balance from Dubai.

The ground forces include an armoured regiment equipped with Italian-made Ottomelara tanks of German design with 105mm guns and British Scorpion light-track tanks; two infantry brigades; and an anti-tank regiment plus artillery.

The air force includes an air defence regiment and the Air Wing which has British-made Hawk and Italian Aeromacchi fighter-trainers.

CMC's titular commander-in-chief is Sheikh Ahmed Bin Rashid Al Maktoum, the youngest of the four sons of Sheikh Rashid, Dubai's former ruler and brother of Sheikh Mohammad, the UAE's minister of defence who was recently promoted to full general by Sheikh Zayed, the UAE president and ruler of Abu Dhabi. Sheikh Mohammad is reported to take a very close interest in CMC, as well as exercising financial control.

The two deputy commanders are Sheikh Ahmed Al Maktoum and Sheikh Butti Al Maktoum, brothers who are close relations of Sheikh Maktoum, Dubai's ruler. Both deputy commanders have passed through Britain's officer cadet training college at Mons near Aldershot. Of the two, Sheikh Butti is the one most frequently referred to as the day-to-day commander of CMC.

The historical role of a Dubai army has been to protect Dubai itself

All of the other senior officers, NCOs and warrant officers are from Dubai, although there are Egyptian and Sudanese training officers plus a few British, seconded or on contract.

The historical role of a Dubai army has been to protect Dubai itself and, given the authority wielded by its ruling family, the tradition of retaining command and control is very much alive.

But today's demands on the UAE impose their own realities on CMC to which it has responded. During the Gulf war, CMC would have been in a state of complete readiness. It also provided a large squadron – some 120 men – for a battalion-size force which the UAE contributed to the US-led coalition. This battalion was engaged at Khafji on the Saudi-Kuwaiti border, and took some casualties. Today, CMC has a large squadron as part of the UAE force attached to the UN forces in Somalia.

Although Abu Dhabi is thought to bear some of the cost of maintaining CMC, the overwhelming charge is to Dubai's account, and this represents a significant part of Dubai's direct contribution to the UAE federal budget.

The fact that Sheikh Mohammad, the UAE defence minister, is from Dubai also gives CMC a political dimension. Like other senior figures in the federation, he is reported to be a strong supporter for greater defence co-operation at more levels, especially where defence overlaps with political and diplomatic issues.

Nicholas Hills takes a look at business law in Dubai

A stimulating environment

THE UAE is an interesting business legal environment because of the interface between the federal (UAE) legislation and regulations in force in individual emirates, including, of course, Dubai.

The law is embodied in codified decrees published in either the Federal or individual emirates' Official Gazettes, which then need application and interpretation in the context of an active and established commercial environment.

Businesses in Dubai are required to comply with federal legislation as well as Dubai's own regulations, which are designed to attract responsible and appropriate foreign businesses to Dubai, which itself has become a significant regional centre.

In 1993, the Dubai government has established the Economic Department, which now looks after, controls and facilitates the registration of businesses in the Emirate of Dubai (other than in the Jehel Ali Free Zone (JAFZ)). The JAFZ has its own individual registration and licensing requirements and operates under its own enabling legislation: an interesting recent development at JAFZ has been the introduction in 1992 of a single-shareholder limited-liability entity known as a Free Zone Establishment (FZE).

While there are considerable advantages and incentives in setting up in JAFZ, many businesses still opt (or require) to establish outside JAFZ in Dubai itself.

There are a variety of waya – many not mutually exclusive – in which a foreign business may operate in or into Dubai under the auspices of the Commercial Companies Law, some of whose provisions are at the moment under review, or under the Commercial Agencies Law.

Care and advice needs to be taken over selecting how to establish. Outside JAFZ, with very few exceptions, some local connection (a sponsor, agent or partner) is required. As a general rule, limited companies established with foreign investment need 51 per cent local participation.

By far the most interesting prospective legal development in the UAE (and in particular in Dubai as a commercial and financial centre) is the imminent introduction of the Commercial Transaction Law, which will need to be considered very closely in parallel with the existing civil law.

In the vibrant marcantile environment of Dubai, the introduction of regulatory commercial legislation will be particularly relevant and, it is expected, beneficial in terms of commercial activity. However, there is bound to be a transitional period while the experienced business practices will need to change to conform with the new law.

The new legislation is comprehensive and, although it is similar to commercial legislation in other Gulf states, it has been carefully considered in the context of local requirements. With the recent introduction of intellectual property legislation, the UAE will, with the new Commercial Transactions Law, have a more complete body of business law.

The development of business law and the constant inter-relation between local and foreign interests, particularly in Dubai (as a regional centre), will continue to provide a challenging and stimulating environment in which there will be an increasing need for sophisticated, but nonetheless practical, legal structuring and documentation.

The author, who has worked in Bahrain, Oman and the UAE, is the resident managing partner of Trowers & Hamlins regional office in Dubai. Trowers & Hamlins is an established London legal practice with offices in Dubai, Abu Dhabi and Oman.

INTERNATIONAL AEROSPACE EXHIBITION

Top-ranking regional event

AS many as 450 companies from 33 countries will be taking part in the second International Aerospace Exhibition in Dubai on November 7-11. The degree of interest shown by supplier countries and aviation companies has confirmed the hopes of its organisers, the UK's Fairs & Exhibitions, that "Dubai '93" – held every two years – ranks, in the Middle East, on a par with Farnborough and Paris for Organisation for Economic Co-operation and Development countries.

The Financial Times is organising a conference, also in Dubai, on "World Commercial Aviation" on November 8-10. Speakers include senior executives from aviation companies, government organisations and commercial banks.

Some 75 civil and military aircraft which will be on display and will take up the bulk of the one kilometre-long exhibition grounds at Dubai's international airport. Equal numbers of civil and military suppliers are expected and the exhibition is intended to reflect a trend for manufacturers to display future aerospace technology rather than just existing products.

But the immediate interest lies in potential orders for high-technology defence equipment from Saudi Arabia and the Gulf states. Saudi Arabia, Kuwait and Abu Dhabi are expected to spend more than $30bn over the next seven years, in addition to existing orders, on advanced fighters, helicopters and air defence systems.

A Kuwait Defence Ministry spokesman said on October 5 that the government was still evaluating different options for helicopters, following reports that Kuwait had followed Saudi Arabia and Abu Dhabi in having placed firm orders for the McDonnell Douglas Apache attack helicopters.

Offset agreements, by which the supplier or the supplier government agrees to invest 30 per cent or more of the contract value in the client country, are now a standard part of large defence contracts.

Two factors have caused competition to intensify between traditional western suppliers and companies from the former Soviet bloc countries. The first is the expected decline in defence requirements from Israel and the Arab front-line countries following the signing of the PLO-Israel accord in September. The second is that Saudi Arabia and the Gulf states, whatever the size of their budget deficits, are perceived to be the last remaining countries with significant amounts of cash to spare and obvious high-technology defence needs to compensate for their small populations and defence establishments. Since the end of the 1990-91 Gulf war which exposed their defence weaknesses, they have all embarked on expensive defence procurement programmes.

There is concern about the recent Iranian occupation of UAE Gulf islands

The UAE in particular is concerned about the recent Iranian occupation of the UAE Gulf islands of Abu Musa and the Tumbs near the Gulf entrance to the Strait of Hormuz. The Gulf states and the western countries with which they have defence agreements have also commented on the Iranian acquisition of two former Soviet diesel submarines at a cost of some $400m and at a time when Iran is conspicuously strapped for cash.

Iran is reported to have an option on a third submarine. It is also reported to have plans to assemble North Korean-made medium-range Scud missiles. The Iranian government has denied recent Saudi newspaper reports that it was planning to test-fire the North Korean missiles in the Dasht-e-Lut desert in central Iran.

Russia and other CIS and eastern European countries will be represented by some 40 companies. Russia also intends to put on display the giant Antonov 125 cargo carrier as well as the Mig-29 and the Sukhoi-27 fighters. Russian companies also have a wealth of research and development experience, most of which cannot now be afforded by their own government. Their weakness may be their need for financing.

Among civil airline fleets, the most publicised customer, Saudi Arabia's flag carrier Saudia, has yet to select suppliers to revamp its ageing fleet of some 60 aircraft. Both Boeing and Airbus are vying for the deal. India is expected to spend several hundred million dollars modernising its airports. Dubai is also due to expand its airport – where the exhibition is being held. The Dubai government is still examining different options, and it is possible an announcement could be made at the air show.

BANKING

New curbs concern foreign banks

IT took just one well-intentioned directive from the UAE central bank to change the complexinn of future business opportunities for Dubai's foreign banking community.

Until Octobar 16, there seemed no reason why loan assets, deposits and profits should not have increased over the next 15 months more or less as they had since the beginning of last year – for foreign banks as well as for the five locally-incorporated banks which originate and do most of their business in Dubai.

But the five local banks – in common with the atronger local banks throughont tha Emirates – are not affected by the central bank directive in anything like the same degree as their foreign counterparts.

The bombshell came with the announcement of new rules setting a limit on loans

The bombshell for foreign banks came with the announcement of new rules setting a limit on loans to single borrnwers or group of related borrowers at 7 per cent of a bank'a capital base. A key clause of the central bank'a directive identified a bank'a capital base as the sama as that used for capital adequacy purposes based on the 1988 ruling of the Basel committee of the Bank for International Settlements. This stipulated that banks worldwide had to have an adequacy of 8 per cent capital relative to risk assets, to ensure they had enough capital to cope with a crisis.

The calculation of total advances to customers is graded according to the type of advance – a straightforward loan counts as a 100 per cent advance while a letter of credit counts for less. The UAE and other Gulf states except Saudi Arabia were listed as high risk country borrowers. And even though the UAE is claiming average capital adequacy among its banks of 10 per cent – 2 per cent higher than that required by the Basel Committee – it is not, yet, accepted by the Basel committee on a par with Saudi Arabia or Organisation for Economic Co-operation and Development countries.

The latest UAE central bank restrictions follows a long list of regulations issued since 1985 when UAE banks paid the price for soma poor-quality loan assets, and were either forcibly merged by emirate government decree or bailed out with an injection of fresh capital.

In Dubai – as in Abu Dhabi – the combination of forced mergers and new capital enabled new management, with support from the emirate government, to start clawing back bad debts. Mr Sultan Al-Suweidi, the UAE central bank governor, probably has more experience of this kind of exercise than all the other UAE bank managing directors. Starting in 1982 with Abu Dhabi Investment Company, Mr Al-Suweidi went on to manage the Bahrain-based Gulf International Bank which had burned its fingers in Saudi Arabia; and finally to Abu Dhabi Commercial Bank which inherited the problems left over from the three banks from which it was created. Even without the BCCI fiasco, it would be understandable, as foreign bankers in Dubai are the first to acknowledge, if Mr Al-Suweidi has a bee in his bonnet about the quality of loan assets.

Al-Jallaf: somewhat sympathetic to the position of the foreign banks

Ironically for Dubai, a city-state which prides itself on its *laissez-faire* approach, there now remains only one commercial bank out of five Dubai-registered banks which has no government shareholding. This is the Bank of Oman (renamed MashreqBank on October 1 for reasons of internal strategy.

All the others – the National Bank of Dubai, Emirates Bank International (EBI), Middle East Bank (MEB), and Commercial Bank of Dubai – are either owned outright by the government or majority-owned by it. EBI is 80 per cent government-owned, and EBI in turn owns 98 per cent of Middle East Bank.

None of these banks will have any serious problem with the central bank circular. Mr Abdulaziz Al Ghurair, MashreqBank's chief executive officer, pointed out his bank's capital adequacy was 17 per cent. After two years of planned restructuring leading up to the change in name, its 1992 return on assets was 2.1 per cent and 21 per cent on shareholders funds. Its liquidity ratio was also high at 41 per cent. Profits last year exceeded Dh200m, up more than 40 per cent from 1991. Eighty per cent of these derived from its home base, Dubai; the balance from its branches overseas in New York, London, Hong Kong and four other countries.

EBI is itself the result of government intervention in three former local banks which were bailed out between 1983 and 1985. The bank, applying lessons learned from the past, has its own internal credit restrictions which, according to Mr Anis Al Jallaf, managing director and chief executive officer, confine lending to below central bank limits. However, with shareholders' funds of Dh1,17bn, the 7 per cent limit would still amount to Dh80m.

Mr Al Jallaf is somewhat sympathetic to the position foreign banks now find themselves in. He says: "UAE national banks abroad can lend according to the capital base of their group and work according to a country limit." He and others interpret the central bank's directive as a warning shot across the hows of smaller, less viable banks to find more capital and merge.

The dilemma for foreign banks is all the more acute in that much of their sizeable exposure is to contractors and traders dealing on a large scale. They require cash facilities, guarantees and letters of credit which can amount to one third or more of the value of a contract. If the credit limitation is not modified, they would have to go to a syndicate of banks rather than to one alone – much more expensive and time-consuming.

One foreign banker's reaction to the central bank circular was blunt: "If the central bank wants to get rid of foreign banks, it is going about it the right way." Business prospects are favourable enough, however, and foreign banks are likely tn stay even if between now and January 1, when the directive starts coming into force, they do everything they can to get the central bank to amend its directive.

The new head office of the British Bank of the Middle East in Dubai

Most of the 13 larger foreign banks have branches or are based in Dubai. Their combined balance sheets for 1992 showed net profits soaring by some 32 per cent over 1991 to almost Dh300m. Loans and deposits were up 11.5 per cent and 12 per cent respectively.

British Bank of the Middle East reported profits up 17 per cent compared with 1991; Standard Chartered up 26 per cent; Citibank almost double the profits of the previous year. Official figures show that loans by foreign banks accounted for more than half their assets; those by local banks at 40 per cent.

If the central bank would accept that foreign banks could use their head office or parent's global capital base as a yardstick, that, said one foreign banker, would solve their immediate problem. Another possible solution is for the bank's head office to increase capital funds allocated to the UAE central bank as an interest-free deposit. If neither of these two is acceptable to the central bank then one banker suggested larger loans would go onto the books of off-shore banks, away from UAE rules.

The deadline for reporting large exposure is March 31 next year

The deadline for reporting large exposure is March 31 next year, but extensions can be granted until the end of 1995. If the UAE economy in general, and Dubai's in particular, remain buoyant, it is more than likely that foreign banks will stay for a slice of the business.

ENERGY

Alternative sources needed

ALL but 2 per-cent of Dubai's energy requirements are met by gas. But for the government, with its atrategy of creating a long-term self-sustaining economy based on tha tripod of traditional imports and re-exports, tourism, and further development of Dubai as a regional services and light industries centre, there can never be enough energy. Nor is it satisfactory for Dubai to be dependent on only one or two sources of supply.

Some gas reaches Dubai's generators from the four off-shore oilfields which provide the bulk of Dubai's oil and gas revenues – Fateh, South West Fateh, Falah and Rashid. Output from the first two has averaged some 200,000 barrels a day and 190,000 b/d respectively, [illegible] from the last two is some 10,000 b/d each. The concession holder is Dubai Petroleum Company (DPC) consisting of the US's Conoco, the operator, France's Total, the Spanish company Repsol, and two German companies, RWE, Germany's sixth-largest industrial group and its biggest electricity generator, and gas company Wintershall.

Conoco-DPC lifts and markets the crude; Dubai sets the price. It also markets four or five cargoes a month, each containing some ½m barrels, so that when traded the government knows what price DPC should also be getting. Dubai treats crude oil as just another commodity, with the sole purpose being to maximise value. The approximate published price for mid-October was $15.23 a barrel. Dubai gets its revenue from taxes and royalties levied on DPC.

Since last April, a pilot scheme has operated to inject 100m cu ft a day of gas to enhance recovery. Signs are that the scheme is proving positive and that recoverable crude reserves are greater than originally foreseen. The reinjection scheme is due to run until 2038.

Associated gas is also piped to Dubai Natural Gas Company's processing plant at Jebel Ali. Most of the liquids – butane, propane, and condensate – are separated and shipped to Japanese buyers. Some of the liquid gas goes to Dubai's own products company, Emirates Petroleum Products Company, which operates its own petrol stations.

Most of Dubai's energy requirements are met by the emirate of Sharjah

A $2bn refinery with a capacity of 250,000 b/d – almost all of which would be for export – at Jebel Ali is still being considered. Potential markets are in India, east Asia and the east coast of Africa. Such a refinery would also enable Dubai to be self-sufficient in petroleum products – or at least less dependent on Abu Dhabi – even allowing for the anticipated surge in demand. Some of the dry gas – about 130m cu ft a day – is used by Dugas itself; some goes to power generators at Dubai's aluminium smelter and to Dubai city.

The onshore gas and condensate field operated at Margham by Atlantic Richfield produces some 35,000 b/d of condensate and can produce 400m cu ft a day of gas. This is all reinjected to maintain reservoir pressure except when, in high summer, Dubai itself needs extra gas supplies for generators. In this case up to 150m cu ft a day is available.

Most of Dubai's energy requirements are met by the neighbouring emirate of Sharjah where the Sajaa gas and condensate field is operated by Amoco. Under an agreement signed in May 1985, Dubai receives 140m-250m cu ft a day depending on seasonal demand in Dubai. For this it is thought to have paid something less than $1.25 per million cubic feet. Amoco has recently found more gas and condensate. Other, smaller, gas supplies reach Dubai from Sharjah's offshore Mubarak field.

Dubai's energy needs last summer averaged 315m cu ft a day, with the annual average being about 230m cu ft a day. But energy demand is rising almost 20 per cent a year and one estimate puts Dubai's summer consumption in the next few years at 500m cu ft a day if present growth rates are maintained.

For the time being, this demand can be met from existing sources, but the narrow spread of suppliers is causing concern. Added to which, gas from Sajaa and Margham may not last more than 10-15 years. Dubai has to find other sources of energy. Sporadic talks have been held for some time with Abu Dhabi, Qatar and Iran, but no agreements have yet been reached.

TOURISM

Focus on 'quality' sectors

BARELY 10 days after the departure of thousands of businessmen expected at Dubai's International Aerospace Exhibition next week, thousands of a different kind of visitor are scheduled to pour into Dubai from India, Pakistan, Saudi Arabia and other Gulf states to hear pop star Michael Jackson at a sell-out concert in a local soccer stadium.

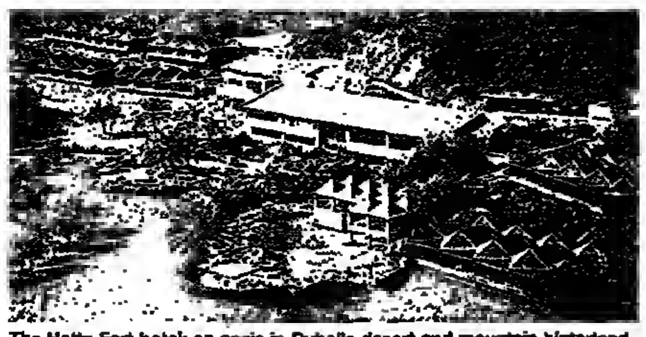
Such is the magnetic pull of Dubai and its government-sponsored promotional organisations – notably the Dubai Commerce and Tourism Promotion Board, the Dubai National Air Travel Agency, and the travel management division of Emirates, Dubai's airline.

Attendances at both exhibition and concert are almost certain to be inflated thanks to the timely decision last month by the Dubai government to open the emirate for short visits to white-collar residents of all Gulf Co-operation Council countries regardless of nationality. Previously only citizens of GCC countries – Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia – had been allowed into Dubai without a visit or transit visa provided by a Dubai-based sponsor.

Dubai's success in selling itself as a tourist and conference-exhibition centre is reflected in the aggregate figures for local hotel occupancies. These show the total number of visitors – business and tourist – increasing by 50 per cent between 1990 and 1992, despite the temporary but dramatic fall-off caused by the Gulf war.

The majority of these visitors are staying in deluxe or first-class hotels, but the biggest proportional increase in the same period – more than 250 per cent – have been visitors at the lower-income end of the market.

Dubai's Promotion Board now maintains offices in seven countries for North America, Europe, Hong Kong and Japan. An example of its success is that Dubai now features on the books of 38 German tour operators alone. The general manager of Frankfurt-based Airtours said in September there had been a steady increase in the German demand for holidays to the Emirates. But the reasons he gave – "very high standards of quality, service, and security," – apply to all the countries where Dubai has made a visible impact on both the summer and winter tourist markets. And because Dubai is a cosmopolitan city, language is not a problem for any visitor, regardless of nationality.

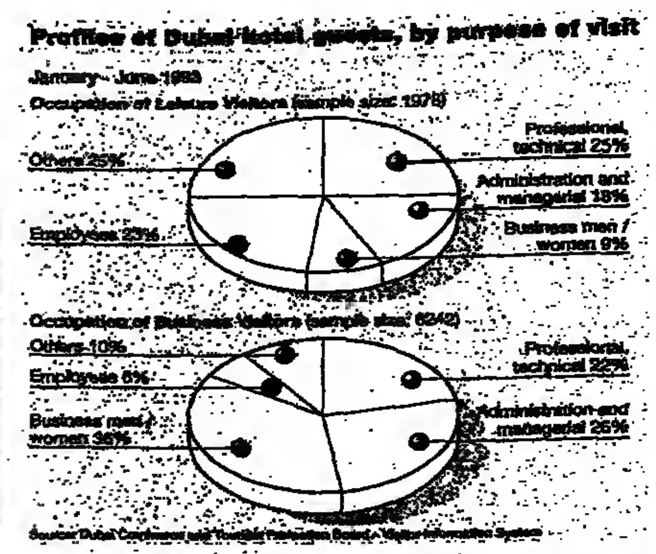


The Hatta Fort hotel: an oasis in Dubai's desert and mountain hinterland

Russians and citizens of other former Soviet republics are a fairly recent addition to Dubai's tourist market. They descend by the planeload on Dubai and neighbouring emirates, not wearing uniforms, but selling them – along with medals, Russian dolls and other paraphernalia. Dubai's traders welcome them. They barter the Russian goods for television sets, radios and all kinds of consumer durables.

Those who have seen the Russians' departure say there is not a square inch of aircraft aisle or emergency exit which is not packed to the ceiling with man and metal for the home market.

Many of Dubai's existing five-star hotels are expanding. The luxury Jebel Ali hotel could be adding 100 rooms to its present 275; and the Hatta Fort hotel, an oasis in Dubai's desert and mountain hinterland, has doubled capacity and added a conference facility. J. P. Marriott opened a five-star hotel last September and a new Forte Grand opens next April. The luxury hotel construction spree is probably not over yet.



The chief executive of Dubai's Promotion Board, Mr Khalid Bin Sulayem, says his organisation's efforts are moving towards "quality" tourism and incentive travel visitors. It was the Promotion Board which intitiated the new entry freedoms for GCC residents, an initiative which has already been endorsed by GCC regional chambers of commerce.

But the icing on the cake for Dubai's leisure market must surely be the three all-grass golf courses, and their related facilities. Emirates Golf Club, opened in 1988, is the home to the PGA Desert Classic. Dubai Creek Golf & Yacht Club, completed only last November, has a flood-lit three-hole course and driving range in addition to its 18-hole course. The newest of all, Dubai Golf & Racing Club at Nad Al Shiba on the desert outskirts of Dubai city, has a nine-hole flood-lit course next to the racetrack and paddock.

Dubai Racing Club, which owns and manages the race course will have its first full season this winter. It is internationally recognised, which means pedigrees of owners appear in catalogues everywhere and jockeys registered in Dubai can race anywhere.

Thoroughbreds trained in Dubai are now entering – and being placed – in races in Europe. And Dubai Racing Club's facilities for club members and sponsors, including hospitality boxes, make facilities at Europe's traditional race courses seem very inadequate by comparison.

PROFILE: EMIRATES

'Upstart' airline has cause to celebrate

"WHAT *are* they doing in Dubai?", a senior official at the Gulf Co-operation Council secretariat in Riyadh asked in October 1985, shortly after Emirates Airline had made its maiden flight to Bombay.

The question was put with more than a hint of exasperation, and the inference was clear; that Dubai, through its upstart airline, was in some undefined way breaking ranks within the UAE – and by extension with its GCC partners – by injecting an unwanted element of competition among Gulf Arab states confronted with the Iran-Iraq war.

After all, the misconception was widespread that it was the UAE as a whole, and not just Abu Dhabi, which was one of four shareholders in Gulf Air – then, as now, the main regional rival to Emirates. So what business did Dubai have in starting another airline – its own – when there were enough airlines to go around?

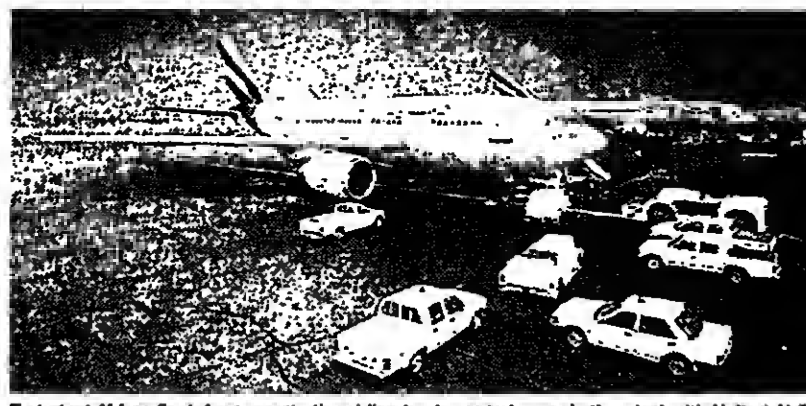
Last month, the "upstart" airline celebrated its eighth anniversary by implementing a marketing agreement with United Airlines, one of the three biggest US carriers, in a further move to expand its international network. This now directly spans 30 destinations in 24 countries. And far from undermining the GCC, Dubai's airline has brought more and new business into the region, and competitors have been forced to improve their own services to keep up.

The marketing alliance with United, in effect a code-sharing agreement, means that the two airlines can use each other's flight identification code to book passengers in computer reservations systems. The logic of the arrangement is that Emirates' network, which has focused on the Middle East, the indian sub-continent and Asia, can now dovetail with United's transatlantic and US domestic routes.

To link with United, Emirates now has two daily flights to London's Heathrow, which replace a previous service to Gatwick.

Emirates has never received subsidies from the Dubai government, which continues to insist on an open-skies policy and looks with equal favour on the 61 airlines which now fly into the emirate. The government does not regulate fares.

Emirates' start-up capital was used to buy two second-hand Boeing 727s from Dubai's Air Wing. Emirates shares head office premises with Dubai National Air Travel Agency to which it pays a cross-charge for rental. "That is all Emirates ever received in government investments or grants," according to Mr Dermot Mannion, the airline's corporate treasurer. And Emirates gets no guarantees from the government when negotiating bank financing for new aircraft leases or acquisitions.



Emirates' Airbus fleet: Last month, the airline implemented a marketing deal with United Airlines

In the western context of the distinction between the private sector and the public-state sector, Emirates is an anomaly, for it is simultaneously in both of these. In common with all seven emirates forming the UAE, as well as with other member countries of the GCC, the Dubai government is "private", consisting of the ruling family and, lower down, its nominees and officials. In this sense Dubai Inc is a private company. At the same time it is very much the State.

The airline is thus the private sector commercial extension of the government and its campaign to promote the emirate of Dubai, as part of the UAE, as the predominant regional business centre and transit point between Europe and Asia. Not for nothing is the airline's chairman, Sheikh Ahmed Bin Said Al Maktoum, a member of the ruling family, also chairman of Dubai's Commerce and Tourism Promotion Board, an autonomous government agency, as well as president of Dubai's Department of Civil Aviation.

But to finance the leasing of its fleet of 13 aircraft, the airline has had to rely on its own resources and return on capital. The fleet consists of eight Airbus A310-300s, and five A300-600Rs. The average age of aircraft in the fleet, including the two original 727s, is less than 3½ years.

The airline releases figures on a selective basis only to institutions involved in loan negotiations. But according to the journal *Airline Business* last April, Emirates, based on fleet size, a 1992 kilometre total of 5.52bn and a load factor of nearly 70 per cent, had 1992 revenues of between $400m and $450m.

The airline has been profitable for six out of its seven full financial years, according to Mr Mannion. In the period April 1992 – April 1993 capacity increased 54 per cent and six new routes were added.

All of its fleet of 13 Airbuses have been financed by commercial bank borrowings, including the first-ever Islamic lease – for one Airbus – arranged by Saudi Arabia's Al Rajhi Banking and Investment Corporation. To do this, Al Rajhi set up a special purpose company which owns the aircraft until the expiry of the lease, at which time Emirates has an option to buy the aircraft. Western commercial bank arrangements also allow for the banks to own the aircraft until the revenue is generated which pays off the loan plus the interest.

There is, says Mr Mannion, a pool of liquidity available in Islamic banks. The only hurdle has been regional investors' reluctance to commit liquidity for as long as 10-15 years instead of the five to seven years they prefer.

Al Rajhi is one of the institutions Emirates is approaching to finance the purchase of seven Boeing 777s which are on order and due for delivery starting in March 1996. The airline also has an option on a further seven 777s. Discussions have already started with Eximbank over airframe financing and with Britain's Export Credits Guarantee Department over a $400m contract which Emirates signed last July for 35 Rolls-Royce Trent engines.

After the heady expansion of its fleet and new routes since the beginning of last year, the airline could be looking for a period to build up its cash reserves in advance of the delivery of the 777s, and to continue to streamline some of its existing routes.

For example, Rome, a recent addition as a stop-over point to Zurich, is now a stand-alone destination, drawing both tourists and businessmen to Dubai. On existing routes, flights to Hong Kong and Singapore now leave daily, while the frequency to Manchester has been increased.

Emirates generates 40 per cent of total traffic movement through Dubai's international airport. Renovation and modernisation plans have been on the books since 1988 when Bechtel prepared the first studies. The Dubai government is considering, but has not yet decided, on the scale of the proposed redevelopment.